THE COLOMBO PLAN

AND OTHER ESSAYS

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THE COLOMBO PLAN

and other essays

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PREFACE

THESE five essays all deal with aspects of the same subject: the economic problems of underdeveloped countries, especially in the Far East.

The first essay, 'The Colombo Plan', was written for this volume. The second, 'Deficit Finance in Asia', appeared in *Lloyds Bank Review* for January 1955, and is reproduced with the permission of the Bank. The third, 'Protection and the Underdeveloped Countries', was given as an address to the Free Trade Union and was published in the *Free Trader* for February 1956. The fourth, 'On Stabilizing the Prices of Primary Products', was my inaugural lecture as Henry Price Professor of International Economics at Chatham House, given in November 1955. The fifth essay, 'Over-population', was added to this little volume as I think the subject of such overwhelming importance that it demands specific discussion, even though I have little that is new to say about it.

Since these essays were written, India has published her new Five-Year Plan. This involves a large increase in public expenditure and lays more stress on industrialization, which will account for about a quarter of the total expenditure. In particular, three new integrated steel plants will be constructed for the Government with the aid of foreign capital and technique. (The United Kingdom is assisting with one plant, Western Germany with another, and Russia with the third.) The new Plan for Pakistan, on the other hand, is devoted mainly to in-

creasing yields in agriculture rather than to further industrialization.

Indonesia has now ratified the Tin Agreement, which is therefore likely to come into force shortly. The Wheat Agreement has been renewed on the present lines, but with a minimum price of US $1.50 a bushel. Argentina has joined, but the United Kingdom remains a non-member. The Tea Agreement lapsed in 1954 and has not yet been renewed.

F. B.

June 1956

THE COLOMBO PLAN

An Economic Survey

INTRODUCTION

WHEN the Colombo Plan was launched in 1950, the Asian members were India, Pakistan, Ceylon, and Malaya (together with British Borneo). They were soon joined by Cambodia, Laos, and Viet Nam (now only South Viet Nam); Burma and Nepal attended the Karachi meeting (March 1952) and Indonesia the New Delhi meeting (October 1953) as full members; and at the Ottawa meeting (October 1954) the Philippine Republic and Thailand, together with Japan, also became full members. The phrase 'full member' means that the country is a member of the Consultative Committee which surveys the progress of the Plan at meetings held about once a year; formerly most of these countries (except Japan) had belonged to the Council for Technical Co-operation (which is associated with the Plan and has a secretariat at Colombo) but had sent only observers to the meetings of the Consultative Committee. Most of the non-communist countries of South and South-East Asia are now full members.

Japan is probably best regarded as outside the area and as a potential contributor, rather than a recipient, of financial and technical aid.

The original non-Asian members were the United

Kingdom, Canada, Australia, and New Zealand. Their part was to provide the Asian members, as far as they could, with financial and technical assistance to help them carry out their development programmes. It was realized, however, that the amount of assistance which they could afford would be inadequate for the needs of the area, even when supplemented by aid from international bodies, such as loans from the International Bank and technical assistance from the United Nations. By far the largest potential source of aid was the United States, and there was therefore general satisfaction when the United States joined the Plan early in 1951. The United States does not attach a Colombo Plan label to her grants and other assistance to the area, but they are recorded in the annual progress reports and she is a member of the Consultative Committee.

There is no general Colombo Plan Fund, from which loans or grants are allocated to the various Asian members. Each country has its own development programme, which, of course, it draws up and revises from time to time exactly as it pleases. Every offer of assistance, whether financial or technical, is the subject of bilateral negotiation between the two countries concerned, who settle all the details entirely between themselves. Nor does the Consultative Committee, or any other body, exercise any control over either the general planning of a country or its administration of its various projects.

Nevertheless the periodical meetings, at which the progress reports are drafted and discussed, undoubtedly serve a useful purpose. The meetings of the Consultative Committee have been attended by Ministers of Finance or Planning and of External Affairs, and they have been preceded by meetings of high-level officials. Information and opinions have been exchanged in a friendly atmo-

sphere; all have been conscious that they are working together for a common aim: that of promoting economic progress and raising standards of life in this vast, over-populated, and poverty-stricken region.

INDUSTRIALIZATION

One question which is often raised is whether the planning of these countries provides for a sufficiently rapid rate of industrialization. In other words, do their development programmes give enough weight to the expansion of manufacturing industries?

At present, the bulk of the working population of these countries, about 70 per cent or more, is engaged in agriculture, and standards of living are very low. In these respects they resemble Great Britain and other western countries before the industrial revolution. The rapid economic progress of the latter during the last hundred years or more has been accompanied by a marked expansion of their manufacturing industries. Today, the lion's share of the world's output of manufactured goods is produced by a very few countries—the United States, the United Kingdom, Russia, Germany, Canada, Japan—of which most are also among the wealthiest countries of the world. It seems natural to assume that the road to economic progress for Asia lies through industrialization, and this view is strengthened by over-population, in most of these countries, on the land. The average size of farm is very small, 3–5 acres or less, and it is often asserted that there is so much under-employment in agriculture that a substantial proportion of workers could be taken off the land, and diverted to other occupations, without significantly reducing aggregate agricultural output.

When we ask, however, what specific new industries

would be likely to succeed in any particular country, the answer is by no means clear. Hitherto, most countries in the area have failed to compete successfully with most types of imported manufactures. Of course, it is always possible, by taxing competing imports very heavily or by prohibiting them, to ensure that local factories make a profit—at the expense of local consumers, who have to pay higher prices. Even so, the home markets are not large enough to provide very much employment in factories. India, for example, after twenty-five years of tariff autonomy, has only 3 million workers—less than her annual increase of population—in all her factories (although she also has perhaps 20 million engaged in various types of handicrafts).

Nearly every country in the area has a number of factories, mostly handling products which are bulky in proportion to their value, such as cement, bricks, furniture, and soft drinks; or which must be sold quickly, such as newspapers, bread, and ice; or which must be provided on the spot, such as public utility services. Expansion into other fields depends largely on the availability of cheap power, transport, and raw materials; on the skill and efficiency of the local labour; and on whether the market is large enough for large-scale factories in industries where mass production has marked advantages.

India—who, by the size of her population, aggregate resources, and development programme, is by far the most important country in the Colombo Plan area—has great natural advantages for an iron and steel industry. She has large deposits of rich iron ore and adequate supplies of coking coal. No doubt she will eventually produce several million tons of steel a year, instead of her present output of little more than 1 million tons. Her

main drawback at present seems to be a lack of suitably trained labour; about twice as many workers are needed for a given output as in Japan. The same drawback applies to the large modern locomotive works which she has built, at a cost of some £15 million, at Chittaranjan. The plant is up to date, but at present India can and does import locomotives at a considerably lower cost than she can produce them for herself.

Smaller countries in the area are, for the most part, less well provided than India with the raw materials and other elements required to expand their manufacturing industries, and they have not done so to any marked extent. The Government of Ceylon has set up a number of factories, most of which have proved relatively unsuccessful.[1]

It is surely obvious that no country can develop into a fully-fledged industrial country over-night. The foundations must first be laid. Adequate and reasonably cheap supplies of electric power, water, means of transport, and similar services must be provided. Workers must be trained. Only when these 'external economies' have been made available can the countries of the area hope to compete with countries such as Great Britain and Japan, which have possessed these advantages for generations.

Moreover, in order to support a relatively large manufacturing industry, giving employment to a substantial

[1] See an interesting Report on Industrial Policy by Sir Kanthia Vaithianathan, Minister of Industries (Ceylon, 1954). He attributes 'the failure of the past industrial policy' to three main causes: '(*a*) insufficient encouragement of private enterprise; (*b*) excessive mechanization and over-capitalization; (*c*) type of goods selected for manufacture' (p. 7). He says (p. 9): 'the vast outlay of capital has done little to relieve the unemployment situation in Ceylon, and the factories are unable to work to anything better than a very low level of industrial efficiency, compared even to countries like India and Burma;' and he recommends that the existing factories should be handed over by the Government to public corporations and that future policy should be to promote small-scale enterprise.

proportion of the population, a country needs an adequate home market: adequate in terms not of mere numbers of people, but in terms of purchasing power to buy the products of the factories. Whence is this home market to come? Broadly speaking, it must come mainly from the surplus of agricultural products produced by the cultivators over and above their own needs. At present, these surpluses are pitifully small. Output per worker in agriculture is less than a tenth of what it is in the more advanced countries. The average diet is not only deficient in quality, containing mainly starchy foods, and too little meat, fish, eggs, milk, fats, and leafy vegetables; it is also deficient in amount, the average consumption of calories per head being less than 2,000 a day in most countries of the area. It is essential to expand agricultural output both in order to provide more food and in order to provide a market for local manufactures and services. As output per worker in agriculture expands, a growing surplus will become available to purchase manufactures and other products, and employment opportunities in non-agricultural occupations will increase.

It is therefore quite proper, in my opinion, that the development programmes of most countries in the area should consist mainly of projects for increasing yields in agriculture, and for improving means of transport and expanding the supply of electric power. Over 40 per cent of public development expenditure has been on agriculture and power, including multi-purpose river-valley projects, around 25 per cent on transport and communications, and only about 8 per cent on industry and mining. (The rest was mainly on social welfare.) Public expenditure is paving the way for industrialization, creating the conditions under which it can develop with

good prospects of success, rather than attempting to force it prematurely.

SOCIAL SERVICES

With the exception of two or three countries, public expenditure in the area on education, health, and other social services is woefully inadequate. Most people are illiterate; schooling is provided for only one child in three or four; and doctors and nurses, especially in the country districts, are few and far between.

An expansion of social services involves expenditure on 'social capital' such as buildings and equipment for schools, hospitals, and health centres. It leaves in its train annually recurrent expenditure, mainly on the salaries of teachers, doctors, nurses, and others. On the average, public expenditure on social services is perhaps a quarter of total public expenditure and should at least treble if they are to approach minimum western standards. But this would mean increasing the total public expenditure of most countries by at least 50 per cent each year.

It is doubtful whether such a large increase in public expenditure is possible. But suppose that it could be achieved: for example, by higher taxation or greater external aid. There are many competing claims for increased public expenditure: much more needs to be done in almost every field.

Some types of public expenditure, both capital and annually recurrent, are truly developmental. They have a direct effect on the national output, tending to increase it in the relatively near future. Expenditure on social services, with the important exception of technical and vocational training, does not come into this category. However essential it may be for the progress of civiliza-

tion, however passionately it may be desired, its effect on output is mostly indirect and long-run. Indeed, expenditure on health services, although urgently needed on humanitarian grounds, has the immediate effect of aggravating the economic problem by reducing death-rates (infantile death-rates, especially, are much higher in most countries of the area than in western countries) and thereby accelerating the growth of population. This has happened already in Ceylon. After the war an extensive campaign, carried out with external aid, virtually stamped out malaria. The crude death-rate was nearly halved and the rate of population increase has risen to 2·8 per cent a year. 'On account of the rising population', said the 1950 Colombo Plan Report,[1] 'the current rate of investment is doing no more than maintain the present standard of living'.

Faced with the need to decide on priorities in planning their public expenditure, most governments have reluctantly been forced to conclude that they can afford only a fraction of what is desirable for social services. They have been compelled to put first things first and to concentrate mainly on developmental expenditure which will directly expand output. As time goes on, the expansion of output, and consequently of incomes and of public revenues, will make possible a more rapid expansion of social services.

As the 1954 Report observes: 'Financial stringencies and the need for increased output have limited the amount which Governments have in general felt able to devote to this sector.'[2]

The above discussion applies to the basic social ser-

[1] Cmd. 8080, p. 32.

[2] Great Britain, Commonwealth Consultative Committee on Economic Development in South and South-East Asia. *The Colombo Plan . . . Third Annual Report . . . October 1954*. Cmd. 9336 (London, HMSO, 1954), p. 113.

vices, mainly public health and education. Other features of the Welfare State, such as old-age pensions, sickness, unemployment and maternity benefits, and family allowances, are still further beyond the reach of nearly all the countries in the area, however ardently they may be desired. The cost of money benefits for sickness and unemployment might be very high, for public opinion would probably insist on benefits approaching the prevailing wage-rates (of around three shillings a day) and the numbers of applicants might well be very large. The most that seems possible at present is the establishment of provident funds, financed by contributions from employers and employees, to provide pensions for employees on retirement. Such funds have been set up in Ceylon and Malaya (with contributions of 5 per cent of wages from both the employers and the employees) and while they are accumulating, contributions greatly exceeding payments-out, they form an important means of compulsory saving.

The annual Colombo Plan progress reports show that in most countries some 20 per cent of public developmental expenditure has been on social services. It should be noted, however, that most countries include in this item the whole of their annually recurrent expenditure on social services. Their capital expenditure, on such assets as new schools and hospitals, has been much less.

There are ways in which the social services can expand more rapidly, despite the limited public resources available for them. More of the cost can be borne by the individuals or local groups which receive the benefits. People can help one another. For example, those who can read could teach others to read. By following the maxim 'each one teach one' illiteracy could be conquered in quite a short time. Again, a village which

wants, for example, a school could be asked to provide voluntary labour to build the school. As the need for more social services is so urgent, standards need not be high. Schools and other buildings can be constructed cheaply from local materials; classes can be held in the open air; more use can be made of elder children to teach the young ones. Vigorous propaganda campaigns to encourage this type of self-help might lead to great progress with relatively little public expenditure.

EXPERTS AND TRAINING

The Colombo Plan countries are so short of capital that it is especially important for them to employ their own savings, together with any external capital aid, to the best advantage. Their developmental projects should be carefully selected, on both technical and economic grounds, and should be carried out in the most efficient manner.

There is also a great need for their workers to be trained in modern techniques. Properly trained workers are needed not only to carry out the various projects, and to operate them when they are completed, but also for every field of economic activity. Research is needed, in laboratories, on experimental farms, and elsewhere, to discover the methods of production best suited to local conditions; and instructors are needed to disseminate the knowledge so obtained among the mass of the people. Trained workers using improved methods can obtain substantially higher outputs, often at little or no additional capital cost.

For all these purposes, the countries of the area need technical assistance from the more advanced countries. The 1954 report summarizes the assistance received during the first three years of the Plan. It includes:

the creation of training facilities in the area, the supply of experts and equipment both for training institutions and development projects, and training facilities abroad for persons from the area. Altogether nearly 5,000 places have been found under the various technical co-operation schemes operating in the area for men and women of the area to receive technical training of one kind or another outside their own country; and some 2,500 experts and technicians have been sent to put their skill at the service of the countries concerned on the spot. These figures do not take into account the long-standing and traditional arrangements by which large numbers of students from these countries come year by year to pursue their studies in the universities and other institutions of Western countries.[1]

It is necessary to send students abroad when the training facilities required do not exist in their own country and when the numbers of potential students for that type of training are too small to warrant establishing local technical schools or university courses, with qualified instructors and adequate equipment, to cater for them. Moreover, sending students abroad has the advantage of enabling both them and their hosts to learn more of one another's viewpoints and ways of life. Nevertheless it is expensive in fares and maintenance allowances; and where the local demand is sufficiently large, the tendency is to establish such facilities locally.

The Colombo Plan is a co-operative endeavour, and the countries of the area help one another, especially in this sphere. Nearly every country has provided experts or training facilities in some field, in which it has special knowledge and experience, for one or more other countries in the area. No doubt Japan, now that she is a member of the Plan, will make considerable contributions of technical assistance. She has already assisted some countries, for example in mining; and the so-

[1] Cmd. 9336, p. 110.

called 'Japanese method' of cultivation, which has been tried out with success in India, may eventually raise the yield of rice per acre quite substantially throughout the area.

Nevertheless it may well be urged that the amount of technical assistance provided so far is inadequate and should be considerably increased. It is true that there are other agencies in the field, notably the United States 'Point Four' programmes and the United Nations technical assistance schemes, in addition to the Technical Assistance Scheme under the Colombo Plan. But the amount of finance available for the Colombo scheme (provided mainly by the United Kingdom, Australia, Canada, and New Zealand) amounts to only some £8 million for the whole period 1951–7.

The most expensive task is that of spreading knowledge of improved methods among the many millions of peasant cultivators and inducing them to abandon their age-old practices in favour of more modern and suitable (but not necessarily more capital-intensive) methods. This is part of the task with which the community projects in India, and similar schemes in other countries, are concerned. But the cost of an adequate Agricultural Extension Service is very high. Suppose, for example, that an instructor receives only US $300 a year, less than a dollar a day, and can deal with a hundred cultivators. This means a cost of at least US $3 million a year for every million farms.

In these circumstances, it seems that any significant impact upon apathy and ignorance must involve intensive propaganda to stir up the people to help themselves. Every farmer who has learned to understand improved methods and to appreciate their value could virtually make his own plot a demonstration farm and try to con-

vert his neighbours. Only by such a nation-wide movement can yields be raised sufficiently to provide a growing volume of employment in industry and service occupations for workers now attached to the land.

PRIVATE ENTERPRISE

The development programmes of the various countries are to be carried out almost entirely by their governments and other public authorities. Western critics sometimes question whether this is either necessary or desirable. They point out that Great Britain, the United States, and other western countries were developed largely by private enterprise, and they ask why Asian countries do not rely more on private initiative and private capital.

One main reason is that often only the government can command the capital needed for a large-scale project. These countries have very low incomes per head of population and consequently very little private saving. Any large amount of capital must usually be obtained by the government, either from its budget surpluses or by borrowing; any substantial loan, whether from the International Bank or other sources, must usually be borrowed by the government or at least under government guarantee. There are seldom local entrepreneurs who are both able to provide the capital for a large-scale project and willing to take the risks of investing in it.

Another main reason is that many of the projects yield insufficient money revenue to provide an attractive profit for private investment. They may yield a high return, eventually, in terms of increased national output, but their direct money return is zero or relatively small. For example, expenditure on roads or on technical and

agricultural instruction or on research may yield nothing at all, and the money return from flood-control and irrigation projects is often relatively low.

In the sphere of public utilities, such as rail transport and electricity, it might be possible for private enterprise to make a good profit, but only by charging relatively high rates and providing services only for the more densely populated districts, leaving unremunerative districts alone. This would be contrary to the policy of most governments. They might conceivably employ private companies, controlling their general policy and their charges and guaranteeing them a minimum profit, but it is doubtful whether private capital would be forthcoming on such terms. However this may be, public utilities can be controlled more effectively if they are owned and operated by public authorities, and most governments have followed this course.

Hence private enterprise is confined to such fields as manufacturing, trading, mining, and private building and construction. Even in these fields governments have sometimes taken the initiative, on the ground that private enterprise has failed to carry out the developments which the national interest requires. For example, the Government of India constructed and operates a large locomotive works and a large fertilizer factory (declaring at one time that when they were running smoothly it would hand them over to private enterprise) and is taking steps to expand the iron and steel industry; the Government of Pakistan has set up the Pakistan Industrial Development Corporation, in which public and private capital have combined to set up textile mills and other factories; and several governments have entered the field of housing, providing low-cost housing in satellite towns and elsewhere.

Some countries in the area, such as India, Burma, and Indonesia, have a definitely socialist outlook. Private enterprise is tolerated provided that it does not seek to increase its profits in ways which are opposed to the interests of the country as a whole. It is expected to conform to the wishes of its government in such matters as the treatment of its workers, the training of local personnel, the siting of new establishments, and the use of local materials. But if it fits into the national pattern there is no point in using scarce capital to compensate the present owners and nationalize it, or in employing government officers (among whom good administrators are usually none too plentiful) to run industries which could be left in private hands. As Mr Nehru said some years ago:

'As long as these industries are kept going and are employing many people, we would rather use our resources for developing new projects and employing more people. If these industries are well managed, we see no need for nationalization at any time.'[1] Most countries in the area hope that their plans for providing more transport, electric power, and other services, and for training workers, will encourage private investment from both local and foreign sources. The foreign investor, however, tends to be somewhat hesitant, whatever freedom he may be promised, when he contemplates the restrictions placed on local private industry in most countries of the area.

HOW MUCH EXTERNAL AID CAN THE AREA ABSORB?

A view which is held by a number of people, although it is seldom publicly expressed, is that the flow of ex-

[1] Quoted in G. D. Binani and T. V. Rama Rao, ed., *India at a Glance* (Bombay, Orient Longmans, 1954), p. 358.

ternal aid is already about as large as the area can absorb.

This view rests partly on the proposition that the receipt of external aid by a country must create a corresponding deficit in its balance of payments. This proposition should not be misinterpreted, as it sometimes has been, to imply that a country's present need for external aid is measured by its present deficit in its balance of payments. This is quite untrue. A country which, by prudence and restraint, has managed to maintain equilibrium in its balance of payments may need external aid far more than another country which, by living beyond its means, has incurred a substantial deficit. The criteria by which the need for external aid should be judged are the poverty of the people, the opportunities for investment, and the extent to which development plans can be carried out; and not the present state of the balance of payments.

However, once external aid is being given, it is actually drawn upon (apart from transfers of assets, such as handing over property externally owned to the country in question) in the form of imported goods and services. If the other items in the balance of payments offset one another, the amount of such aid actually received over a period is measured by the import surplus of the country during that period.

When the flow of external aid given is large relative to a country's imports, it may be difficult to expand imports (or to reduce exports, possibly diverting workers and other resources from export industries to developmental projects) sufficiently to absorb it.

A current illustration of this difficulty is provided by South Viet Nam, where the United States proposes to spend over US $300 million, far more than the normal

total imports of the country, during the present year. If this money were paid out in piastres to local workers, refugees, and others, including local officials and soldiers, without a corresponding expansion in total output and imports, the consequence would be a marked rise in the cost of living: too much money chasing too few goods.[1]

But even in South Viet Nam this difficulty could be overcome by a liberal import policy for consumer goods and by arranging to spend much of the money on additional imports such as agricultural and road-making machinery, railway rolling stock and lorries, prefabricated housing, replacements of military equipment, and experts and technicians who would keep most of their remuneration in their own countries.

In most countries of the area, this difficulty is far less serious, for external aid forms only a moderate proportion of their normal imports. It can take the form of additional imports, for example, of plant and equipment for developmental projects and of consumer goods for (in effect) workers engaged on those projects. Some political problems might arise in connexion with United States offers of surplus commodities on a large scale, for local producers of similar or competing commodities would probably object. But it would seem quite practicable in most cases for a country to arrange for an import surplus sufficient to absorb a good deal more external aid than it is receiving now. It must be remembered that in any event increased incomes are partly spent, to an extent which varies from country to country, on increased imports. In so far as the greater output due to developmental projects and the growth of population brings about an expansion in total incomes, it will be accompanied by some expansion of imports. What may

[1] The inflation predicted did in fact take place during 1955.

be needed in some countries is a somewhat more liberal import policy, or at least an absence of further restrictions.

The other basis for the view under discussion is that most countries in the area are too short of trained administrators and of local experts, such as engineers and technicians, to expand their development programmes much further.

Except in India, where the British left a well-trained body of local administrators and other experts, and in Malaya, where there is a substantial number of qualified local people and where perhaps half of the senior government posts are still held by 'Europeans' (to be replaced by local people as rapidly as possible), this is broadly true of most countries in the area. Indonesia, in particular, complains that the Dutch trained far too few local people to take their place.

This is a difficulty which will diminish as time goes on and more local people become qualified. But even at the present time it can be overcome by a greater use of foreign experts and technicians on short-term contracts. If necessary, one or more firms of consulting engineers can be employed, as they are by Burma and Indonesia, to assist in planning development and in placing contracts with foreign firms, who provide the skilled personnel required. Again, it is possible for a government to engage in a 'joint venture' with a foreign company, as the Government of Burma has done with a British company for rehabilitating its oil industry.

The conclusion seems to be that it would be possible, with a little planning, for most countries in the area to absorb substantially more external aid than they are receiving now. This conclusion covers also the release of sterling balances, which, although a repayment of debt

to the area, involves the same issues in the present context.

IS THE PLAN ADEQUATE?

The aggregate figures of physical development under the Plan are impressive. Several large river-valley projects are well under way. In India some 4 million acres of land have benefited by new irrigation works and in other countries more land has been brought into cultivation by irrigation, drainage, and reclamation. New power stations have been built, with transmission lines, increasing the generating capacity of electricity by several hundreds of thousands of kilowatts. Extensive improvements have been made to means of transport. New factories have been built.

But is this enough? Is the pace of development sufficiently rapid to achieve the objective of steadily rising real incomes, despite the constant growth of population?

The experts appointed by the United Nations who reported (May 1951) on 'Measures for the Economic Development of Under-Developed Countries' estimated (p. 76) that to raise national income per capita by 2 per cent annually, taking account of the growth of population, an annual investment of US $5,320 million would be needed for South Central Asia (India, Pakistan, and Ceylon), or over 20 per cent of the 1949 national income of this area, which they estimated at US $24,000 million.[1] Their estimates for the other Colombo Plan countries were of the same order of magnitude.

Most of these countries have been saving only about 5 per cent of their national incomes. It is often argued that they are so poor that it is difficult for them to save more without resorting to compulsory saving under a

[1] United Nations, Department of Economic Affairs, *Measures for the Economic Development of Under-Developed Countries* (New York, 1951), p. 76.

dictatorship similar to those of Communist countries. But the amount of external aid which they are at present receiving fills only part of the gap. The conclusion is therefore drawn that external aid must be greatly increased if they are to make sufficient economic progress within their present framework, which they wish to retain, of a free and democratic society.

The last progress report[1] gives the following figures:

COST OF DEVELOPMENT IN THE PUBLIC SECTOR
(£ million)

	1951–2	*1952–3*	*1953–4*	*1954–5*
Burma	11	25	49	56
Ceylon	20	23	26	30
India	196	205	287	419
Indonesia	37	68	57	44
Malaya and British Borneo	27	21	28	32
Pakistan	44	81	97	123
Total (for above countries)	335	423	544	704

These figures are converted into sterling at the official rate of exchange; for two or three countries, notably Indonesia, the free market rate is substantially lower. Moreover, for the last two years they include, for most countries, annually recurrent expenditure on social services. The figures for 1954–5 are, of course, estimates which may or may not be realized.

But even if we take the above table as it stands, and add an estimate for private investment, the total amount of investment falls far short of the amount which the United Nations experts considered necessary. Thus the public investment of India, Pakistan, and Ceylon in 1953–4 amounted to only £410 million or US $1,148 million. Even if we assume that this figure was equalled by private investment, the resulting total falls far short

[1] Cmd. 9336, p. 113.

of the US $5,320 million which the United Nations experts deemed necessary. It is doubtful whether investment in most countries of the area amounts to more than 7 per cent of their present national incomes.

Nevertheless it happens to be a fact that during recent years real incomes per head have been rising over much of the area. There has certainly been a moderate rise in India, and there has been a substantial rise in Malaya and (until recently) in Burma.

The United Nations experts would seem to have considerably exaggerated the amount of investment needed. This may be largely because they thought that investment should be mainly for the purpose of industrialization. But no such estimates, whether expressed in absolute amounts or as a percentage of national income, can be more than an extremely rough guide. The yield from some investments may be much greater than from others, and other factors besides investment must be taken into account.

The yield from investment varies between different projects and from country to country. It depends on the nature of the investment opportunities available, on the judgement with which they are selected, and on the efficiency with which they are carried out. To give only one illustration, in some parts of the area a relatively small investment in rehabilitating land which was neglected during the war has yielded a very high return.

Moreover, although the amount of investment is a very important factor affecting future output and income, other factors also play a part: for example, the state of internal security, the weather, and the terms of trade. A considerable increase in output per head can be obtained by measures requiring little investment: for example, by changes in land-tenure arrangements which

give tenant cultivators more incentive to increase their yields; by improved methods, especially in agriculture; and by more self-help in every sphere of economic and social life.

There are no grounds for complacency. The constant growth of population in these countries means that great efforts are needed to maintain their present standards of living, let alone to raise them. But it seems clear that a modest but sustained improvement is possible with a rate of investment less than 20 per cent, or even 10 per cent, of their national incomes.

PROGRESS AND PROSPECTS

The targets which the original Asian members (India, Pakistan, Ceylon, and Malaya) set for themselves towards the close of 1950 amounted to an aggregate expenditure on development of £1,868 million over the period 1 July 1951 to 30 June 1957. Half-way through this period they had spent £1,055 million. But in the meantime their programmes have been considerably expanded and revised.

The best measures of economic progress, where estimates are available, are figures of actual increases in output and real incomes, rather than of the extent to which particular targets have been attained. For this purpose, it is best, for some of these countries, to take as a base the period immediately before the boom in raw material prices (associated with the Korean War) of 1950–1, when they enjoyed a brief spell of exceptional prosperity due to the sharp rise in the prices of their chief exports.

In India, the output of food grains in 1953–4 was estimated at over 65 million tons as against 54 million tons in 1949–50. This increase was due to a considerable

extent to favourable seasons, but it also reflects the greater area under cultivation, and the higher yields per acre, due to developmental expenditure. The index of industrial production (base 1946 = 100) rose steadily from 121 in 1951–2 to 165 at the close of 1954. The national income of India is estimated to be 12 or 13 per cent higher than five years ago; as price-levels in India are somewhat lower than they were then, this represents, allowing for the growth of population, an increase in real income per head at the rate of over 1 per cent a year.

Pakistan has recovered from the food shortages due to unfavourable monsoons some time ago and now has a surplus of rice available for export. She has established a number of textile and other factories and is developing the natural gas discovered at Sui in Baluchistan.

Although estimates are not available, it may be doubted whether Ceylon, faced with a rapid growth of population, has achieved any significant rise in real income per head, but it seems unlikely that there has been a fall.

In Malaya and British Borneo, despite the activities of communist terrorists in the Federation of Malaya, there has been a marked increase in real wages over the last five or six years. This is due, to a considerable extent, to the higher price of rubber as compared with the period just before the Korean boom, but it reflects also the greater output resulting from developmental expenditure.

In Viet Nam, Cambodia, and Laos, any substantial economic development has been ruled out by civil war.

Indonesia has expanded her output of rice and other foodstuffs but on the whole her economic development has been disappointing for a country which has rich natural resources and is, like Malaya, a leading world

exporter of rubber and tin. She has been held back partly by lack of internal security in some parts of the country and partly by continuous inflation to meet budget deficits.

The war caused great destruction in Burma, and the immediate post-war years were a period of insurgency, but after internal security was more or less restored, she made rapid progress with rehabilitation. Between 1950–1 and 1953–4 her volume of output rose by no less than 27 per cent. Over the next few years she will benefit from Japanese reparations. But the sharp fall in the price of rice some two years ago is having an adverse effect, which seems likely to continue, on her economy; at present, rice forms 80 per cent of her exports.

What does the future hold for this area?

No doubt the rate of economic progress will vary from one country to another.

India, now completing her first Five-Year Plan (which has involved public expenditure at a considerably more rapid rate than she envisaged in 1950) and about to formulate a substantially bigger Plan for the next five years, has the advantage of large sterling balances on which she can draw. In so far as the creation of new money to finance development is matched by a corresponding increase in imports it need not be inflationary.

The exchange reserves of some countries, however, are relatively low. For example, Pakistan (who has been aiming at a rate of developmental expenditure nearly double the rate which she planned in 1950) reported at the Ottawa meeting that 'it is increasingly difficult to provide the physical and financial resources needed to carry out the development programme without adding to inflationary pressures and introducing further strains

into the economy'[1] and has recently devalued her rupee to the level of the Indian rupee.

Should there be any substantial fall in the price of rubber, which at present is well above the price of its synthetic substitutes, this will have unfavourable effects, for the time being, on Malaya, Indonesia, and to a less extent Ceylon.

All countries will need to make great efforts to help themselves, especially by using their own under-employed labour for community projects and similar schemes, and by working towards the widespread adoption of improved methods, notably in agriculture.

They will need also to save more. There is no 'iron law' which restricts their saving to 5 per cent of their national incomes. Burma, for example, saved much more (partly by appropriating for rehabilitation expenditure the excess of the export prices she received for her rice over the relatively low prices which she paid her growers) during her period of rapid recovery. A major possibility for most countries is to raise more through taxation and improved methods of collection. It would be unreasonable to expect them to raise as high a proportion of their national incomes as more advanced countries raise in taxation; but the present proportion for most countries in the area is below 10 per cent. Another possibility in some countries is higher charges for transport, electricity, irrigation water, and similar services, in order to make them self-balancing.

Under the Colombo Plan, with its external financial and technical aid, there has been some rise in real incomes in most parts of the area, although not in all. It is quite clear, in retrospect, that in view of the continuous growth of population something like the Colombo Plan

[1] Cmd. 9336, p. 79.

was imperative; and it is equally clear that it must go on after 30 June 1957, when it is formally due to come to an end.[1]

[1] It was agreed at the Singapore meeting in October 1955 that the Plan should be extended to 30 June 1961 and that the future of the Plan should be considered at the 1959 meeting (Great Britain, Commonwealth Consultative Committee on Economic Development in South and South-East Asia. *The Colombo Plan, Fourth Annual Report*. . . . Cmd. 9622 (London, HMSO, 1955), p. 3).

DEFICIT FINANCE IN ASIA

INTRODUCTION

NEARLY every country in South and South-East Asia has a development programme, under the general umbrella of the Colombo Plan. The programmes consist of proposed expenditure by governments and other public authorities, mainly on the provision of basic services such as transport and electric power; on measures such as irrigation, flood control, and larger supplies of fertilizer, designed to increase the output of agriculture; and on expanding the capacity of export and other industries.

A large amount of public and private investment, supplemented by other measures such as technical training, is undoubtedly needed. It is the only way of permanently raising the very low standards of living which with a few exceptions (notably Malaya) prevail throughout the area.

The area contains some 700 million people. That is a quarter of the population of the world. But it contains far less than a quarter of the resources of the world. Its most important resource is land; about 70 per cent of the people are engaged in agriculture, mostly as peasant cultivators. The amount of agricultural land at present available, however, is less than one acre per head of population. Consequently the average size of holding is very small, from two to five acres, and it yields an even

lower income than the typical male wage-rate of about three shillings a day.

The area produces most of the world's tin and has other mineral resources, such as the rich iron-ore reserves of India, although they are far from fully developed. But it has less than 2 per cent of the world's coal and oil. It is developing hydro-electric power, but at present its consumption of electricity is only about 10,000 million kilowatt hours a year as against some 400,000 million in the United States and some 60,000 million in Great Britain. Its equipment of plant and machinery and other industrial assets is very meagre, 'almost nothing', as Mr Dulles said recently, compared with the great industrial countries. Some measure of this is provided by the total steel consumption of the area—less than 2 million tons a year. The area is also very poorly provided, relatively to western countries, with roads, railways, vehicles, and other means of transport and communication.

In a phrase, the western worker is living in the machine age but the eastern worker is still in the age of the bullock cart and hand tools. It is no wonder that his productivity is so low. The West has been building up its resources and skills for 200 years. The East cannot be expected to catch up overnight. However, although its standards of living are as low as those of Great Britain before the industrial revolution, it can make much more rapid progress, for it has access to the techniques, the supplies, the markets, and the assistance of the more developed countries. The task is indeed formidable, especially as the area is adding over 8 million mouths a year to its population, but it is being tackled, in most of the countries, with resolution and realism.

A major problem is how to find the money, or more

accurately the real resources, for the development programmes. External aid has been forthcoming, in the form of grants and loans and technical assistance. It has been, and no doubt will continue to be, an essential and valuable part of the development finance of these countries. But they agree that in the main they must depend on their own resources. This means saving. In other words, it means present sacrifices, reducing still further their already low levels of consumption, for the sake of future benefits.

If all goes well, and the various projects now under way or contemplated yield high returns in the form of increased national products, then real incomes will rise and the proportion, as well as the amount, that can be saved out of the national incomes will show an upward trend. But at present most of the area is bogged down by its poverty. Because incomes are low, the margin for saving, whether compulsory saving through taxation or voluntary saving, is low. It is too low to provide all the capital required.

Most of the countries of the area export mainly primary products. For example, Indonesia exports rubber, tin, oil, and copra; Malaya, rubber, tin and palm oil; Pakistan, jute and cotton; Ceylon, tea, rubber, and copra. The exports of Burma and Thailand consist very largely of rice, exported mainly to other countries in the area. India exports mainly manufactures, as well as primary products such as tea, but her manufactures consist largely of textiles made from locally-grown jute and cotton.

During the commodity boom of 1950–1, associated with the war in Korea, most countries in this area benefited from a marked favourable movement in their terms of trade. The prices of their exports rose sharply.

The consequent expansion in their export earnings, national incomes, and government revenues enabled them to finance their development programmes entirely or mainly from their own resources; and some of them built up external and internal reserves, on which they have since been drawing. However, this was partly because the boom caught them unprepared. The necessary planning and preparation for large-scale projects takes a considerable time, and a number of their projects were not yet ready to be carried out.

The commodity boom was short-lived. Only the price of rice continued to rise. It rose by some 20 per cent during 1951–3, benefiting Burma and Thailand (but affecting conversely the rice-importing countries of the area). The prices of most other exports fell, and recently the price of rice also has been falling sharply. The terms of trade of most countries in the area have swung back again, but in the meantime they have expanded their development programmes, or at any rate are in a position, if the finance is available, to speed up the pace at which they implement them.

They are now faced, therefore, with the difficulty that their own savings, together with the external aid available to them, are not sufficient to finance their programmes. But they believe, and quite rightly, that their development projects are absolutely essential for their economic progress. In these circumstances a number of them have adopted, or are contemplating, the expedient of resorting to a moderate amount of deficit finance.

What are the conditions favourable or unfavourable to deficit finance in this part of the world? What are the limits beyond which it becomes inflationary, or more than mildly inflationary? These and allied questions were discussed recently by a Working Party of the

Economic Commission for Asia and the Far East under the chairmanship of Dr Lokanathan, the Executive Secretary of ECAF .

SPECIAL CONDITIONS OF THE AREA

Theoretical discussions of deficit finance by Lord Keynes and others have been concerned mainly with industrial countries during a period of depression and heavy unemployment. Under such conditions, it has been argued, an increase in the supply of money and in public and private expenditure will bring into employment, as the effective demand for their products expands, capacity which is idle and labour which is unemployed.

There is no parallel to this state of affairs in the countries of the area. They are not industrialized to any considerable extent. There is little idle capacity in such forms as plant and machinery, already in existence and waiting to be used. Nor is there a large body of unemployed wage-earners. Most of the workers are not wage-earners but are working on small farms on their own account. In order to employ them elsewhere, for example in manufacturing, they would have to be taught new skills and they would have to be provided with factories and other industrial equipment, at a substantial capital cost per head.

Hence the argument that the increased flow of money would be more or less matched by an increased flow of output due to the utilization of unemployed labour and resources has very little application to these countries. There is indeed a great deal of under-employment, mainly in agriculture, but that is a permanent feature of their economies. I will say more about that later. The present point is that they are not adopting deficit finance in order to combat a depression—there is no depression—

but in order to finance their development plans, and they have little idle capacity or skilled labour ready to be employed immediately the demand for their products expands.

The Working Party pointed out a number of other respects in which conditions in the area differ from those in more developed countries. A large section of the population is engaged in producing foodstuffs mainly for its own needs, and makes little use of money. Clearly the scope for imposing 'forced saving', through higher prices, on this section is very limited. It is people with relatively fixed money incomes who are forced to consume less when the cost of living rises. But in this area 'the relatively small size of the fixed-income class reduces the scope of the transfer of real resources to the government for development purposes.'[1] Again 'the low per capita incomes in most ECAFE countries result in a high propensity to consume. In other words, increases in incomes due to an increase in the money supply are likely to be very largely spent rather than saved.'

All the above conditions tend to reduce the scope for deficit finance. There are some other conditions, however, which work in the opposite direction. The high propensity to consume is modified, in a number of countries, by the habit of hoarding currency notes. This habit is sufficiently marked to facilitate deficit finance provided that confidence in the currency is maintained. Again, in most countries of the area only a small minority of the people use banks, and the banks maintain high cash reserves. The multiplying effect due to credit expansion of any increase in cash would therefore be much less than in western countries. Another feature of most countries in the area is that their transport and com-

[1] Report of Working Party.

munication systems are far from fully developed. Hence price increases tend to spread relatively slowly from one region to another, and it may be that a mild inflation resulting from expenditure on local projects would not spread to the rest of the country. Further, in the more or less self-sufficient agricultural areas there are, except when the harvest is poor, local stocks of foodstuffs which can be temporarily reduced with safety. This tends to diminish or delay the inflationary effects of an expansion of demand.

The Working Party set out all these conditions but did not express a definite view as to whether, on balance, they are more favourable or less favourable to deficit finance than conditions in more developed countries.

DEFICITS WITHOUT INFLATION?

The Working Party briefly defined inflation as an increase in money expenditure relatively to output or, more widely, relatively to the available supplies of goods and services. They pointed out that there are various factors which may make possible an increase in the supply of money without inflation:

> For example, the increase in the money supply may be neutralized by a corresponding reduction in private spending, possibly due partly to currency hoarding. Again, it may be offset by a fortuitous increase in production, such as a good harvest. Or the government may have sufficient foreign-exchange reserves to draw upon them in order to enable a greater volume of imports to match the increase in spending. Or external aid may make possible a similar increase in the volume of imports.

The point about foreign-exchange reserves is especially relevant to India, who is planning an appreciable amount of deficit finance during the coming year. Her sterling balances, on which she can draw to a certain

extent, have considerably increased over the last three years and now exceed £650 million.

Such factors, however, the Working Party continued, are of a temporary or fortuitous nature. 'They cannot be relied upon to prevent inflation over a period of years in the face of an increase in money supply.' The Working Party then pointed out that the increase in public developmental expenditure may lead to a fairly rapid expansion of output which more or less matches the increase in the money supply. 'In general, the inflationary effects of developmental expenditure based on deficit finance will be less the shorter is the time-interval between the investment expenditure and the consequent increase in output, and the less is the amount of capital needed to produce a given increase in output.'

There is no doubt that much could be done to make use of under-employed labour in ways that require relatively little capital. A good illustration is the so-called Japanese method of rice cultivation which is now being introduced in India. It involves much harder and more continuous work by the cultivators, as well as better seeds and a greater use of fertilizer, but it gives much higher yields per acre. In general, the yields per acre of most crops are low in this area and could be considerably increased by improved methods of cultivation, which usually involve harder work. But it is no easy task to persuade many millions of illiterate peasants to adopt improved methods. Again, in some areas mixed farming, with livestock, would give a greater output, including more of the animal products needed for a better diet, and would provide fuller employment on the land.

Another innovation which has great possibilities has been the introduction in India and other countries of community projects. The people of a village need, let

us say, an irrigation tube-well or trenches to prevent soil erosion or better roads. They are encouraged to practise self-help by themselves providing the labour, preferably free of charge.

Nevertheless I cannot agree with the view that, in order to minimize the dangers of inflation, development plans should be revised to include mainly quick-yielding schemes rather than long-term projects. In my opinion, this is unsound advice. The capital available for investment should be used in whatever ways will make the greatest permanent contribution towards an expansion of output. A large-scale investment in providing, say, irrigation or flood control or electric power, or in a river-valley project which combines all these three purposes, should not be discarded merely because it takes several years to complete, if in the long run it will give a considerably higher return than alternative short-term investments in, for example, the expansion of cottage industries.

Be this as it may, it is a fact that projects which will not have their full effect on output for some years play a major part in the development plans of most countries in this area, and indeed many such projects are already well under way. During the interval, while they are being carried out, an increase in the supply of money is likely to have inflationary consequences.

THE EFFECTS OF INFLATION

The Working Party gave the following outline of the course which the development of most countries in the area is likely to take:

> First, the output of food will increase. This will come about by the reduction of losses through such causes as bad storage and pests and floods, by increasing yields per acre

through the application of better methods of cultivation, and by bringing new land into cultivation or making possible two crops instead of one. Under-employment on the land may be reduced by the adoption of more labour-intensive methods of cultivation and in some areas by the expansion of mixed farming, with livestock. By these means the populations will receive a more adequate and better balanced diet.

Second, the increased output of food will give the cultivators a larger surplus above their own needs and this surplus will provide the purchasing-power for a home market for local manufactures and other products. Some under-employed workers will be attracted off the land into other occupations. They will need training, and they will also need capital, in order to employ them in non-agricultural activities.

These developments will be facilitated by the improvement of means of transport and communication and by the provision of more electric power.

In countries which export a large proportion of their output, the development may take place largely in improving the efficiency and expanding the capacity of their export industries, thus enabling them to buy more food and other goods from abroad.

I am in complete agreement with this outline. The primary need is for more and better food The average daily consumption in India is less than 1,600 calories, far too little for health and efficiency, and in most countries of the area it is not much higher. Moreover, the diet consists mainly of rice and other cereals and starchy vegetables. It contains relatively little meat, fish, or other protein and relatively little fats, milk, and leafy vegetables. Most of the people suffer from under-nourishment and consequent lack of energy and stamina. The remedy for this situation is a marked expansion of agricultural output.

In this respect, the situation in these countries resembles that of Great Britain before the industrial revolution. So long as one family's labour on the land provides

little more than enough food for themselves, the great bulk of the population must be engaged in agriculture. Higher yields in agriculture are essential before much industrialization can take place. In this area there is considerable under-employment in agriculture but nevertheless yields per acre are much lower than in western countries. As they increase, a surplus of purchasing-power will be created with which to buy the products of workers who are being trained for, and will gradually be moving into, other occupations.

The conclusion which the Working Party drew from its analysis was that 'development programmes framed on these broad lines will inevitably include a large number of projects which will only gradually expand output although eventually they may give a high return. Hence a considerable and continued expansion in the money supply is almost certain to have inflationary consequences.'

The Working Party felt that a moderate amount of inflation might do little harm, and might indeed stimulate private investment, provided that the public appreciates the paramount need for carrying out developmental projects and is convinced that the money is being invested wisely. 'However, when the rate of inflation exceeds a certain magnitude it will exercise an undesirable and distorting influence on the economy.' Resources will be used wastefully in order to reap inflationary profits; there will be speculative hoarding; there may be balance-of-payments difficulties; rates of interest may rise, destroying the domestic market for government bonds; and 'if wage-earners and others find their real incomes considerably reduced by the rise in prices, there may be serious social unrest, and administrative and productive efficiency may suffer.'

Hence the section concludes with a warning: 'Extreme caution should therefore be exercised to prevent inflation from becoming of such a magnitude that it distorts the economy, weakens confidence in the currency, reduces the incentives to saving and to productive investment, and inflicts hardships on large sections of the community.'

FOREIGN TRADE

One effect of an inflationary increase in money supply is to stimulate imports. The volume of imports tends to rise because money incomes are higher and possibly also because the prices of domestic products which compete with imports tend to rise. At the same time, the costs of the export industries may be raised, somewhat curtailing the volume of exports. Hence foreign-exchange reserves will tend to fall.

The importance of this factor, the Working Party points out, will vary with the proportion of national income which is spent on imports and with the extent to which increases in money incomes are spent on imports rather than on domestic products. In a country such as Ceylon or, to a less extent, Indonesia, with a high proportion of foreign trade, the fall in foreign-exchange reserves is likely to be the first and most powerful check on inflation. In a country such as India, which exports only 5 to 10 per cent of her output, this factor will be of less importance. Malaya is rather a special case. She relies heavily on foreign trade but has no central bank with powers of credit creation.

The points made by the Working Party are illustrated by the recent history of Ceylon. The story is told frankly in the annual reports published by the Central Bank of Ceylon. Briefly, the Government maintained its expendi-

ture at a high level after the recession in export prices following the end of the Korean boom, running large budget deficits financed by credit creation. In 1952 and 1953, says the report published by the Central Bank, Ceylon maintained consumption at a much higher level than could be justified. 'The result was that the country sacrificed external assets which it could have put to better use.' External assets, which stood at Rs 1,209 million at the end of January 1952, had fallen to Rs 605 million by the end of November 1953.

In July 1953 the Government took a series of measures which tended to restore equilibrium. The most important of these was the virtual abolition of the food subsidies, which had been accounting for nearly a quarter of all government expenditure, although this meant raising the price of rationed rice from 25 cents to 70 cents a measure. Other reductions were made in non-developmental expenditure; taxes were increased; the charges for postal, railway, and electricity services were raised. Aided by some improvement in the terms of trade, the balance of payments gradually recovered.

Of course a country may seek to protect its external reserves by imposing severe restrictions on imports. More than one deficit-finance country in the area is following this policy at the present time. Another possible course, followed for example by Indonesia in February 1952, is to devalue the currency. But in so far as the volume of imports is reduced, the internal pressure of inflation is correspondingly increased.

CONCLUSIONS

I have referred so much to the views of the Working Party that I should add that they discussed also several other questions, which I shall mention very briefly. They

began by considering various concepts of a budget deficit and concluded that the most useful definition for their purpose was the decrease in the cash holdings of the government plus government borrowing from the central bank. They discussed indicators of inflation and concluded that the most sensitive indicator, together with a good over-all index (if available) of domestic prices, is numerical estimates of factors accounting for changes in money supply, such as increases in foreign-exchange reserves and in bank loans and decreases in the cash balances of all government bodies and in savings deposits.

They discussed controls, to counteract or suppress the effects of inflation. They agreed that the effectiveness of such controls would vary between countries according to the efficiency with which they were administered.

> If controls were not efficiently administered, they would lead to various abuses and injustices and would distort the economy without achieving their objectives. It was considered, therefore, that, to begin with, suitable means should be explored for checking inflation by designing the fiscal policy in such a way that a large portion of the excess income created by inflation would be mopped up by taxation or by borrowing from the public.

The countries of this area are certainly faced with a dilemma. Developmental expenditure is essential to increase their outputs and standards of living. It is difficult for them to find adequate resources to meet this expenditure without having resort to deficit finance. Yet, in my view at least, the scope for deficit finance is not very great; the limits beyond which the inflationary effects become harmful are soon reached.

Obviously each government must decide for itself how much it spends on such purposes as defence and social

services rather than on developmental activities (including technical training). However, there is a possibility that more could be raised in taxation and similar ways as an alternative to deficit finance. Services provided by governments or other public authorities, for example postal services and rail transport and electric power, are not always charged for at rates which cover their full costs, including their capital costs. It may seem hard to charge such rates for, say, irrigation water provided to poverty-stricken peasants, but if the benefit to them is greater than the cost (as it should be if the schemes are sound) then there seems no reason for subsidizing them and thereby diminishing the resources available for development elsewhere. On the same reasoning it would seem that land which has been raised in annual value by developmental projects should contribute a large part of that increase in taxation.

There may be considerable scope in some countries for increased taxes on semi-luxuries such as tobacco. In most countries of South and South-East Asia the personal exemption level for income tax is two or three times as high as in the United Kingdom and only a tiny minority of the population pays any income tax. A poor country cannot be expected to take as high a proportion of its national income in taxation as a relatively rich country. At the same time, it is a remarkable fact that in most countries of the area (Burma, Ceylon, and Malaya are exceptions) the total yield of taxation, both central and local, is well under 10 per cent of their national income.

There are undoubtedly great political and administrative difficulties in the way of increasing the yield from taxation, whether by higher rates of tax or by more effective methods of collection. Nevertheless, it would

seem that further efforts in this direction might be made.

Finally, it is very clear that a substantial measure of external aid to the area is essential during these critical and formative years.

PROTECTION AND THE UNDERDEVELOPED COUNTRIES

If by underdeveloped countries we were to mean countries that are underdeveloped, we could hardly find a better example of such a country than Canada. Here is a vast country, the second largest in the world, with less than a third of its agricultural land under cultivation, with 700,000 square miles of productive forest, with great resources of water power, of which only a quarter are at present utilized, for providing cheap electricity; a country which has struck oil, with proved reserves of at least 2,000 million barrels; a country which is a treasure-chest of most of the minerals known to science; and a country with a population of less than 16 million. Clearly the opportunities for investment, immigration, expansion—in a word, for development—are very great.

Yet in the curious terminology of our time, as laid down by the United Nations and its experts, Canada is not an underdeveloped country. Quite the contrary. Canada is one of the few developed countries in the world.

The term 'underdeveloped countries' has come to mean what we used to call 'backward countries', namely, countries with a low standard of living. We now say 'underdeveloped' and not 'backward' because some of these countries, having an older and perhaps richer

cultural heritage than the West, and believing that the West surpasses them only in the grosser and more materialistic values of life, resent being called 'backward'. I suppose they also object to being called poor. So we call them underdeveloped.

On the one hand, then, we have a few countries with relatively high standards of living, the so-called developed countries. They include the United States and Canada, the United Kingdom and Western Europe, Australia and New Zealand, and possibly South Africa, Soviet Russia, and Japan. On the other hand, we have the so-called underdeveloped countries, covering most of the world's population, with relatively low standards of living. It is about them that I shall speak tonight.

It is difficult to make valid generalizations about so many different countries, covering between them most of the world, but there is one generalization which applies to nearly all of them. The bulk of their populations are engaged in agriculture, mostly in providing food for local consumption. This is inevitable because their output per worker is so low. The basic need of mankind is food, and even with 70 per cent or more of their people engaged in agriculture their output of food is inadequate both in quantity and quality.

In several ways they resemble the countries of the West before the industrial revolution. Their productivity is low and therefore their real incomes are low. They have low standards of living and little margin for saving and most of their workers are, and must be, employed in producing food.

In order to raise their real incomes they must increase their output per worker. This involves the investment of capital, technical training, and the dissemination and widespread adoption of improved methods. Progress

along these lines is taking place, but it is likely to be slow, especially in countries with large and growing populations.

They have, however, a partial means of escape from poverty, a partial short cut to better standards of living, which was not available to the countries of the West before the industrial revolution. The great improvements in transport since that time have opened the world to international trade. An underdeveloped country today can specialize on producing some product for which it is relatively well suited, and which other countries want. It can produce this product well in excess of its own need for it, which may be very small, and by exporting it, it can obtain in exchange far more of other commodities than it could have produced for itself.

The extent to which such specialization on one or more exports is possible depends, of course, on the resources and size of each country. I will take as my example Malaya. The soil of Malaya, broadly speaking, is poor. But the constantly damp warm climate is very suitable for rubber, and today Malaya derives a considerable part of her income from the production of rubber, which is nearly all exported.

A smallholder who remembers the coming of rubber in the early years of this century has described what happened. 'At that time', he says, 'most of us depended on the food we could grow for ourselves; our standards of living were low. Then we planted rubber. We planted it around the kampongs, in the clearings, and even on the slopes of the hills. Then we waited, year after year we waited, for the great day when the trees would be ready for tapping.'

It was a great day indeed, for it provided the smallholders and also the estate workers with incomes much

greater than they had ever had before. At the present time, real incomes, rates of wages, and standards of living in Malaya are two to three times as high as in most neighbouring countries, and this is due largely to specialization on rubber.

Yet there are people who would like to turn back the clock of progress, and to block up this channel of escape from low standards of living. They say Malaya is too dependent on rubber and should produce more food, especially rice, for herself.

Some of the swampy parts of Malaya are quite suitable for rice-growing; there rice pays better than any other crop, and for many years they have been used for rice-growing; Malaya has produced between 300,000 and 400,000 tons of rice a year, about a third of her present consumption, without any need for Protection or other assistance to rice-growers. But if any considerable amount of rice were to be grown on less suitable land, including some of the land now under rubber, substantial capital expenditure would be needed on such purposes as clearing and irrigation, and even so, yields would be low. There would be no prospect of recovering this capital expenditure from the proceeds of the rice; on the contrary, the rice-growers would need assisting, probably by quantitative restriction of imports of rice, raising the price of rice to the whole population, in order to obtain incomes at all comparable with the incomes received by those engaged in producing rubber.

The Malays themselves are highly indignant at the suggestion that they should grow rice on land which yields twice as much income at present, under rubber. A minor point is that rice-growing, wading in muddy water, is less pleasant than growing rubber. They say in effect:

And here in mire and puddle must I stand
To wrest a little rice from this harsh land?
Why, oh! Why?

The arguments put forward for this course are flimsy in the extreme. Nothing is said about the damage which would be inflicted on Siam and Burma if Malaya were to cut down her purchases of rice from these countries. It is urged, however, that Siam and Burma may one day come under communist control and may stop exporting rice. Why on earth should they? They will still need foreign exchange, and employment for their people, and the obvious and most advantageous way to achieve those aims is to continue producing and exporting rice, for which they are so eminently suited.

But it is urged, there may be a war and how would Malaya feed herself then? The answer is that it takes only a few months to change over to producing more rice, vegetables, and other foodstuffs. No doubt plans should be made in advance for such a change-over, but there is no more need to make the change now than there is to wear oilskins because there may one day be a storm.

Again, it is argued that Malaya is very dependent on rubber and that the income from rubber is subject to fluctuation. But surely a fluctuating income at a high level is better than a stable income at a low level? One might as well tell a barrister that he is too dependent on his briefs and should spend his time growing foodstuffs in his garden.

It is sometimes said that one day synthetic rubber may drive natural rubber out of the market. That day has certainly not arrived yet, and I doubt whether it ever will, for the new high-yielding varieties of rubber trees yield three times as much as the old ones. But in any

event what would be the point of giving up the present advantages of specialization on the ground that one day they may disappear? Surely it is better to make hay, or rather to tap latex, while the sun shines?

The arguments put forward in favour of self-sufficiency, or greater self-sufficiency, are so feeble that one is forced to conclude that they are advocated by people who cannot think clearly. For example, some of them, driven into a corner, will say that Malaya should still produce as much rubber but should grow more rice as well. Of course, if we could produce as much of everything as we wished there would be no economic problems. But unfortunately resources are limited, and it is necessary to choose. If more land and labour are used for one purpose, less are available for other purposes. The guiding principle should be to make the best use of limited resources by producing what pays best. Another variant of the same confusion of thought is the advice to export more and import less: an obviously impossible precept for the world as a whole, since the exports of one country are the imports of another.

It so happens that during the war the clock was in fact put back. In common with other countries occupied by the Japanese, Malaya was virtually shut off from foreign trade. She became self-supporting, growing her own food, largely tapioca, and diversifying her economy by producing various manufactured goods of poor quality by rather primitive methods. It was an experience, I gather, which nobody who lived through those years would wish to repeat.

I turn now to the view that underdeveloped countries should develop manufacturing industries as rapidly as they can. Soviet Russia gives them this advice, and adds that they should begin with heavy industry.

Heavy industries use heavy materials such as coal and iron ore. India has large deposits of rich iron ore and also deposits of coking coal, but most underdeveloped countries have not. If they were to set up heavy industries, they would have to import the materials, and the transport costs on them would make costs of production considerably higher than in countries where the materials are ready to hand. This disadvantage is much less for industries such as textile industries which import materials on which the transport costs are only a small fraction of their value.

Moreover, heavy industries usually require large-scale plant and equipment, which is not worth installing unless it can be worked near to full capacity. The home markets of many underdeveloped countries are much too small to absorb the volume of sales that would be required, and they could not compete with the established manufacturing countries in export markets; indeed, as a rule, they would need substantial Protection in some form even to sell their products locally.

Such industries also need trained and skilled workers, who at present are not available in sufficient numbers in most underdeveloped countries.

It is for these reasons that the establishment of large-scale industries by the Government of Ceylon has proved an admitted failure and a costly waste of scarce capital.

Even where the materials are present, the large-scale plants required for efficiency and the small size of the local market may rule out a factory on modern lines. Thus Trinidad produces both cocoa and sugar, but a large-scale chocolate factory in Trinidad would not pay. It would produce as much chocolate in a week as all the West Indies consume in a year. Jamaica, to take another example, produces bauxite. But the processing of bauxite

into aluminium needs very large amounts of cheap electric power, which Jamaica does not possess. So her bauxite is processed in Canada.

Nevertheless most of the underdeveloped countries are very eager to develop manufacturing. They are so eager that when they are forced to accept the conclusion that they cannot establish modern large-scale factories they search for more primitive and usually less efficient methods of making the same products on a small scale. The reports of engineers and others from Asian countries who have visited Japan under the auspices of the Economic Commission for Asia and the Far East to study the iron and steel industry and cottage industries are full of such suggestions. For example, a blast furnace, to be efficient, should have a capacity of at least 800 tons a day. Most of the countries of Asia could not absorb anything like that output of pig-iron; moreover, most of them lack coking coal. But that does not stop them. Why not have a very small blast furnace, using charcoal? So back we go into the eighteenth century.

They would be better advised to study Hong Kong, a small colony of little more than 2 million people, which has established a large and varied output of manufactures, mostly for export, on the basis of complete free trade.

Is this urge to set up manufactures at any cost entirely irrational or is there some kind of reasoning behind it? There is a possible argument for it. In most countries factory workers are paid more than farm workers. Why not protect those industries, including manufacturing, in which labour is best paid, so that the country will specialize in the best-paid occupations? 'Products of coarse, rough, labour will be imported free, while the products of highly skilled, well-paid labour which are

imported will be heavily taxed. So the labour of the people of the country will be confined to the highly paid work as much as possible, a highly desirable consummation.'

I have been quoting from my old teacher, Edwin Cannan, in his book *Wealth*. Professor Cannan continues:

> Now, no doubt, every well-disposed parent wishes his children to be engaged in well-paid occupations, and we may agree that the State should wish the same for the inhabitants of its territory. But would it be reasonable for a parent who had taken no trouble and incurred no expense in the education of his children to assemble them and say, 'My sons, on no account employ a dentist or lawyer. Be your own dentists and lawyers: let Jack attend to your teeth and Tom to your legal business. The work is much better paid than the unskilled work which you usually work at. It is true that you will not get anyone outside the family to employ you as dentists or lawyers, as you will be rather unskilful, but you can at any rate keep your own work inside the family'. It is clearly better to be a competent rivetter or even a competent jam-maker than a quite incompetent dentist or lawyer, at any rate when the interest of the customer as well as that of the worker is taken into account. A people that is competent to follow the better-paid trades is sure to do so: the only way to secure that the people of a particular country shall do the best-paid work of the world is to give them the highest intelligence and the best possible special training.

The main reason, however, for this urge to set up manufactures is probably that most of the wealthier countries of the world are also manufacturing countries. Surely, it is thought, there must be a connexion. If the underdeveloped countries were to develop manufactures surely they too would be wealthy?

It is indeed true that the underdeveloped countries, with the majority of the world's population, produce

only a small percentage of the world's output of manufactures. But what is often overlooked is that the percentage which they consume is not a great deal larger. The great bulk of manufactured goods is consumed either in the countries that produce them or in other manufacturing countries. Take India for example. The gross value of the output of manufactures in India is less than 5 milliard dollars, only a tenth of what it is in Great Britain. But the imports of manufactures into India amount to only 1 milliard dollars. At present the factories of India employ 3 million workers. If imports of manufactures were completely replaced by locally-made products, the amount of factory employment in India would not be greatly increased nor would the present pattern of the Indian economy show much change.

The fact is that at present the home markets of underdeveloped countries are so small that the mere replacement of some imports of manufactured goods by locally-made products under some form of Protection will not take them far along the path of economic progress, even if the new industries are suitable to the country and are efficiently operated.

What is needed is something much bigger and more fundamental: an expansion of their whole economies. They must raise their output per worker. They need more investment, especially in transport and electric power, better training for their workers, better incentives to effort, a widespread knowledge of improved methods of production. And they need this above all in agriculture, in which most of their workers are engaged. Their output per worker in agriculture is far lower than in western countries and, despite the general opinion that there is under-employment on the land, their output

per acre is also low. Japan, for example, produces two or three times as much rice per acre as most countries in the East.

The consequence is that the surplus of food produced by the cultivators over and above their own needs is pitifully small. But this surplus *is* the home market; it is the only purchasing power available to 70 per cent or more of the population to buy manufactures and other non-agricultural products. It must be expanded. As it expands, not only will people be more adequately fed, but workers will be set free from the land to engage, after training, in non-agricultural occupations, where they will find a growing home market for their output.

A good illustration of a country which has developed along precisely these lines over the last twenty years or so is provided by Canada.

In 1931 Canada was still predominantly an agricultural country: 1,132,000 of her workers were engaged in agriculture and little over 500,000 in manufacturing. Today the position is quite different. Canada has become a leading industrial country; she is now seventh among the manufacturing countries of the world. She has little more than 800,000 workers in agriculture and nearly a million and a half in manufacturing. The gross value of her factory output has risen from \$2½ milliard in 1931 to nearly \$20 milliard; its volume has more than trebled.

This transformation has been achieved by an expansion of the whole Canadian economy. The foundations were laid by the provision of improved means of transport, cheap hydro-electric power, and the training of her workers. It was made possible by a great increase in output per worker in agriculture, which has doubled since the 1930's, so that fewer workers now produce

much more than a larger number produced before the war.

Admittedly the increased output per worker in agriculture is due partly to the mechanization of agriculture, which is not so practicable for countries where land is scarce relatively to population. But it is also due, in part, to measures which are practicable in such countries —improved varieties of seed, irrigation, better methods of breeding and feeding livestock, and a general raising of standards of farming.

Although Canada does have a moderate protective tariff, I would like to stress the point that her industrial development did not take place by replacing imports with locally-produced goods. Quite the contrary. Her imports are now more than five times the value and more than double the volume of her pre-war imports; and they consist mostly of manufactured goods.

Most of the underdeveloped countries face a formidable task in their effort to bring about a lasting and progressive rise in their standards of living. The way will be hard and it may be long. But the right solution and indeed the only solution is for them to expand their whole economies by raising their output per worker, especially in agriculture, and by laying firm foundations for the healthy expansion of industry which will follow naturally upon rising productivity and rising real incomes. In the meantime they would be well advised to make the fullest use of the opportunities afforded them by international trade.

ON STABILIZING THE PRICES OF PRIMARY PRODUCTS

FLOOR PRICES AND CEILING PRICES

THE great majority of the workers of the world are not wage-earners. They are primary producers; and their incomes are lower and much less stable than the incomes of wage-earners.

In this day and age, the movement of money wages is one-way; they frequently go up but they never come down. Stocks and shares may come tumbling down, great firms may go bankrupt, markets may collapse, but the industrial worker receives with unaffected indignation any suggestion of a cut in his wages. He has his trade union, and he knows his rights.

The small farmer, however, is selling to the market, and if the prices of his products fall, so does his income. There is nothing he can do about it; he cannot go on strike, for he is his own employer.

The most striking example of a fall in the prices of primary products was the Great Depression of 1930–3, when many of them fell to half or less than half their 1929 levels. Wheat, for example, fell from 120 cents to 40 cents a bushel, and rubber fell from 9*d.* to 2*d.* a pound. But even in normal times the price of any particular primary product may fall heavily. At any moment, the primary producer may find himself sinking helplessly in a quicksand. What he needs above all is a

firm floor beneath his feet: a guaranteed minimum price for his products.

That is why farmers and other primary producers have turned to their governments for protection. A country which imports such products can always protect its own producers, if it wishes, at the expense of its consumers; and even an exporting country can protect them, if it is rich enough, at the expense of its taxpayers as well as of its consumers. In some countries, notably the United States, the farmers have used their political influence to obtain guaranteed minimum prices which are generally regarded as unreasonably high. They have obtained a floor somewhere up the Empire State Building rather than on the ground; for example, today the American wheat-farmer receives a price 60 per cent higher than the price obtained for similar wheat by his Canadian colleague just across the border. But these excesses do not alter the basic need of primary producers all over the world for floor prices at a reasonable minimum level.

The poor countries, the so-called underdeveloped countries, cannot afford to subsidize their primary producers. On the contrary, they tax them in one way or another. So we have the paradox that while the American cotton-grower, the French wheat-farmer, the British producer of sugar beet, all receive prices well above those prevailing in the world market, the Burmese rice-grower, the Malayan rubber smallholder, the Pakistan jute farmer, the West African cocoa producer, receive prices well below the world prices of their products.

The driving force for international agreements on primary products comes mainly from the underdeveloped countries which export them. What they want most is a firm floor. They know by bitter experience the pit into

which they may again be plunged; and they want safeguards.

A floor price implies a corresponding ceiling price. There have been times when the prices of particular primary products have been generally regarded as too high. Consumers may not have said so very loudly, for fear of offending the exporting countries, but they have a weapon which they have used: they have refused to buy. For example, when the price of wool rose to ten times its pre-war level, in 1950–1, sales fell off and the price came down. Again, during recent years the price of rice has been several times its pre-war price and twice as dear compared with wheat as it was before the war. Consequently the importing countries of the Far East have kept down their purchases of rice. Before the war they imported each year about 7 million tons of rice and 1 million tons of other cereals; during recent years they have imported each year only 4 million tons of rice and 7 million tons of other cereals, mainly wheat; and now stocks of rice are accumulating in the exporting countries and its price is falling.

But although consumers do have this weapon, they naturally want a ceiling price written into an international agreement as a counterpart to their acceptance of a floor price. They may go further and require, as in the Sugar Agreement, that exporting countries hold minimum stocks from which they can meet a moderate increase in the demand from importing countries without forcing the price through the ceiling.

There is thus, for any particular primary product, a range of prices which at any moment is regarded as reasonable. At the bottom is the floor price and at the top is the ceiling price. A price below the floor would be generally considered unfair to producers, causing them

hardship and distress; and a price above the ceiling would be generally considered unfair to consumers. This concept of a reasonable range of prices plays a leading part in international agreements.

PRICE FLUCTUATIONS

There is a tide in the affairs of commodities. Over a number of years, any particular commodity may show a price trend, either upward or downward.

Suppose, for example, that the more accessible and easily-worked deposits of some mineral are giving out, while the demand for it remains strong. Its price will trend upward, restricting consumption to the supplies available and stimulating prospecting and the search for substitutes.

Suppose, on the contrary, that the spread of higher-yielding varieties is continually expanding the size of a particular crop. The price will trend downward, stimulating a growing consumption to absorb the growing output. Any attempt to check this downward trend will result, other things being equal, in larger and larger stocks until one day stocks have to be unloaded and the price comes down with a rush.

A further point which is relevant nowadays is that the general level of prices may show a rising trend; in this country it has been rising since the war at the rate of nearly 5 per cent a year. Other things being equal, there is no reason why the producers of primary products should not share in this rise. If what they buy costs them more, the prices of their products must rise to the same extent if their real incomes are to remain constant.

The period of an international agreement is often too short, only three years for example, for price trends to make a big difference. Nevertheless they should be taken

into account when fixing floor and ceiling prices and also when attempting to smooth out fluctuations. To keep prices more stable does not mean freezing them where they are: it means giving full weight to any long-term trend and preventing marked fluctuations around that trend.

Marked fluctuations in prices can cause losses and dislocation, even if they are confined within limits set by floor and ceiling prices. If they go beyond the price range regarded as reasonable, either because there is no agreement fixing such limits or because they break through them, the damage can be still greater.

A rise or fall in price which is reversed within a short period will seldom do much harm. The danger is that a sharp rise or fall may last for long enough, before it is reversed, to lead people to believe that it is a permanent change and to modify their behaviour accordingly.

A sharp rise in price which producers think will be permanent may lead them to enter into long-term commitments which they have difficulty in fulfilling when the price falls again. For example, they may borrow to expand their capacity or they may make contracts to buy such things as houses, cars, or television sets on a hire-purchase basis. Consumers may also be affected. Thinking the rise to be permanent, they may change over to substitutes, which are now cheaper, and may find it difficult to change back again when the price subsequently falls. For example, manufacturers who use the commodity as a raw material may adopt their plants to use substitutes instead.

Fluctuations in the price of a commodity are especially important to countries which derive a considerable part of their national income from exports of that commodity,

as does Egypt from exports of cotton or Burma from exports of rice.

Suppose that there is a marked increase in price, due to a greater demand from importing countries and not to bad harvests. The export earnings of such a country will rise substantially, for it will be able, as a rule, to export a larger quantity than before, and at a higher price per unit. The government of that country, believing the rise to be permanent, may well embark on an expanded programme of developmental and other expenditure. Wages and other incomes are likely to rise, both within the exporting industry and generally. When the price falls again, the government may have to abandon some of its plans. Some of the private investment undertaken in the expectation that export earnings would remain high may turn out to involve losses. It may be difficult to reduce wages to their former levels, and the country may be left with internal costs which are now too high; consequently private investment may fall and unemployment may be created. All this could have been avoided by damping down the original rise in price, which turned out to be only temporary: in other words by smoothing out the price fluctuations.

Or take the opposite case. A sudden large fall in the demand for imports of the commodity in question will tend to bring down its price. This will have adverse effects, in countries which rely largely on their export earnings from that commodity, on standards of living, on employment opportunities, and on the volume of resources available for public and private investment: it may bring about a general state of depression in industry and trade.

If the fall in demand for imports subsequently turns out to have been only temporary, and prices recover to

their former level or above it, then clearly the loss and dislocation could have been avoided had some mechanism existed for keeping them more steady.

It is understandable therefore, that underdeveloped countries which rely largely on their export earnings from one or more primary products should take the lead—at times when the prices of their products are low—in pressing for international agreements. They would like such agreements to achieve two aims, namely, to provide a floor price and to prevent marked fluctuations around the price trend.

TYPES OF INTERNATIONAL AGREEMENTS

The various international commodity agreements of the 1930's were mostly between producing countries only. The prices of most primary products had fallen heavily during the Great Depression and the general aim of these agreements was to raise them to more reasonable levels by co-ordinated restrictions of output.

Today the prices of most primary products are not considered, at any rate by consumers, as unreasonably low. The various international bodies concerned with framing or sponsoring international agreements would view with disfavour any proposals to restrict output; and in order to secure their approval, and to obtain the goodwill and participation of large consuming countries such as the United States and the United Kingdom, exporting countries which suggest international agreements have to avoid any explicit provisions for restriction of output.

This leaves three possible types of agreement, namely, a multilateral contract; export quotas; and an international buffer stock.

A multilateral contract is an arrangement by certain

exporting countries to sell specified quantities of the commodity at a stated maximum price and by certain importing countries to buy specified quantities at a stated minimum price. In other words, it guarantees exporting countries actual sales, of a stated amount, at a floor price, and it guarantees importing countries actual purchases, of a stated amount, at a ceiling price; but it does nothing to smooth out price fluctuations within these limits. It is thus a kind of mutual insurance which becomes effective only when market prices rise above the maximum or fall below the minimum.

Such an agreement would have a significant effect in reducing instability if it covered a large part of world trade and if the spread between the maximum and minimum prices were not too wide, or the period of the contract too short, to make the mutual insurance which it provided of little value.

The only example of a multilateral contract is the International Wheat Agreement, which was renewed in 1953 for three years. It provides for a minimum price of US $1·55 and a maximum of US $2·05 a bushel. The percentage of world trade covered was originally about 60 per cent; now that the United Kingdom and Sweden have withdrawn it is about 40 per cent.

The second type of agreement is an export quota scheme. Under such a scheme, exporting countries adjust the volume of their exports to the expected demand for imports. Each exporting country which participates is given a percentage share, or quota, of the total exports of the group; and it is agreed in advance, together with such importing countries as participate, what the total exports of the group shall be for the coming period.

The International Sugar Agreement is an example of such a scheme. It aims at keeping prices within certain limits, which at present are a maximum of 4·35 cents a pound f.o.b. Cuba, and a minimum of 3·25 cents, and also at damping down fluctuations within these limits. When prices approach the upper limit, exports are increased, and when they approach the lower limit exports are reduced. Any export quota scheme would probably follow this policy of fixing a ceiling and a floor price.

Such a scheme would have a significant effect in reducing instability if it covered a high proportion of world exports and if importing countries could give good estimates of their requirements.

The third type of agreement is for an international buffer stock. The purpose of an international buffer stock is to smooth out large fluctuations in prices by buying the commodity when its price is relatively low and selling it when its price is relatively high. Probably ceiling and floor prices would be fixed, and the Manager would be instructed to sell when prices approached the ceiling and to buy when they approached the floor.

There is no example of an international buffer stock at present, but there is provision for one in the International Tin Agreement, now awaiting ratification. This fixes a floor price of £640 a ton and a ceiling price of £880 a ton.

PRACTICAL DIFFICULTIES

As the United Nations is firmly in favour of measures to reduce instability in the prices of primary products, and as so many exporting countries keenly desire such measures, it is remarkable that at present there are international agreements for only three commodities,

namely, wheat, sugar, and tea, together with one for tin which will come into force if the one or two countries which have not yet ratified it decide to do so. The tea agreement, which I have not hitherto mentioned, is a survival from pre-war days; it is between four producing countries only and includes provisions (which have not been applied since the war) for restriction of acreage.

The fact is that there are practical difficulties which are formidable obstacles to reaching agreement.

First, there is the technical difficulty of fixing price differentials. A few primary products, such as sugar and tin, are more or less homogeneous. But most are very far from homogeneous. They have a wide range of varieties, and the dearer varieties may fetch much higher prices than the cheaper ones; moreover, any given variety may have a wide range of qualities, with a considerable price-spread between them. Price differentials are by no means fixed and stable. They vary considerably from time to time with changes in supplies and demands. And for some commodities the price differentials prevailing at any time cannot be established by market quotations, for there is no market in which sufficiently frequent dealings take place in all the main varieties.

This raises a difficult problem, which is most obvious under a multilateral contract, which provides for actual purchases and sales between countries. For example, under the International Wheat Agreement importing countries are pledged to buy, if required to do so by the exporting countries, stated quantities of wheat at the minimum price of US $1·55 a bushel. But this price relates to No. 1 Northern Manitoba wheat ex Fort William. What if an importing country is offered quite a different type of wheat, say by Australia ex Sydney?

How much should it pay? The same question arises when prices reach the maximum.

The International Wheat Agreement provides that in case of dispute the Executive Committee, in connexion with the Advisory Committee on Price Equivalents, shall make the decision. It is perhaps fortunate that so far the Executive Committee has never had to do so.

The cotton industry has had long discussions on a possible agreement but they have come to nothing owing to this difficulty. Their Technical Committee on an International Cotton Agreement considered that 'no country would agree to fixed differences at the maximum or minimum at the discretion or in the judgement of a price equivalents committee', and concluded that a multilateral contract was ruled out 'for just this one reason alone—namely, the impossibility of establishing acceptable price differentials between growths'.

The same difficulty arises with an international buffer stock for a commodity which is not homogeneous. Countries would complain if the Manager were to sell their varieties rather than others or to buy other varieties rather than theirs; the only way to avoid such complaints would be to maintain agreed proportions between all the different varieties, but this would prevent any flexibility in the operations of the buffer stock and would greatly reduce its opportunities of making profits.

Export quotas for most commodities (but probably not for cotton) could avoid this difficulty by merely fixing tonnages, paying some regard to price differentials when deciding on the quota for each country. This is a main reason why the majority of international agreements have been, and are likely to be, export quota schemes.

An international buffer stock faces a special obstacle of its own, namely high capital and operating costs. The

proposed Tin Agreement is primarily an export quota scheme to which the buffer stock would be only an adjunct. Hence it provides for a stock of only 25,000 tons, as against world exports of over 150,000 tons. But if a buffer stock is to stand alone, as the sole means of reducing instability, it must be large, equal to perhaps six months' world exports of the commodity. It needs also an equivalent amount of money, in case prices fall and it has to buy the commodity. Hence each exporting country might be liable to provide, partly in the commodity and partly in money, the equivalent in value of its export earnings for a whole year, as the initial capital of the buffer stock.

Moreover, most commodities (unlike tin, which is compact and indestructible) require ample storage space, and are subject to deterioration and damage by pests, so that storage charges on them would be high. Including the costs of rotating the stock, they might amount to 10 per cent or more a year of its value.

A general difficulty which confronts any scheme is that of inducing enough countries to join it. Importing countries may be unwilling to make definite commitments under a multilateral contract; the United Kingdom, by far the world's largest wheat importer, withdrew from the International Wheat Agreement (on an issue of principle) when it was renewed, and the views of the Technical Committee on an International Cotton Agreement have already been quoted. Some exporting countries may not be able to afford the capital required to start an international buffer stock: they may prefer to use such capital as they have, or can borrow, on their general development programmes.

If some exporting countries stay out of an export quota scheme, they will be free to expand their exports

as much as they wish, taking advantage of the prices maintained by the restrictions on imports imposed on themselves by the exporting countries who are in the scheme. Hence an export quota scheme is unlikely to be agreed upon unless all the major exporting countries, and probably most of the minor ones too, are members of it.

The question of how large a quota each country should have is a very thorny one. If the actual exports of some preceding period are taken as a basis, some countries may say that their harvests were poor during that particular period; and others may point out that they have areas recently rehabilitated, or cleared, or irrigated, which are only now coming into production. Negotiations may break down because some countries insist on larger quotas than others are prepared to concede them.

Moreover, each country must feel sure, before it agrees to join an export quota scheme, that the others will be able and willing to keep their undertakings. For example, there are one or two countries where the administrative control of the government is so weak that substantial amounts of the commodity might be smuggled out in excess of the agreed quota.

This list of difficulties is not complete, but it should suffice to explain why international agreements have been concluded since the war only for wheat (and this is now minus the United Kingdom) and for sugar, with one for tin awaiting ratification, despite the powerful desire of most primary producers for some stabilizing mechanism.

THE VOLUME OF TRADE

So far, the discussion has been about prices, and it is with prices that international agreements are concerned.

But producers want an adequate income, and exporting countries want adequate export earnings. They want not only satisfactory prices but also a satisfactory volume of sales, and no type of international agreement (except, to a limited extent, the multilateral contract) assures them of the latter.

There is a connexion, of course, between prices and the volume of sales. Lower prices tend to expand sales and higher prices to contract them. It is very important, therefore, that the price limits of an international agreement should be fixed realistically, taking into account probable future trends, in order to ensure an adequate volume of exports.

There may be temporary fluctuations in the volume of trade which can be met by additions to or withdrawals from stocks. This is clearly the right solution, to take an interesting but unusual example, for olive oil. There is a marked two-year cycle in the output of olives, a large crop one year being followed by a small crop the next year, then by another large crop, and so on. Stable prices would mean violently fluctuating incomes for producers unless these variations in output were smoothed out by means of stocks. A similar situation arises when an exporting country has an unusually good harvest or an unusually bad one. It may arise also through harvest changes in an importing country which produces most of its own requirements (as, for example, India with rice) and therefore imports much more when its own crop is poor than when it is good.

Other influences affecting the demands by importing countries may be of a less temporary nature. A country may impose restrictions on imports in order to protect its own producers of similar products. For example, during the immediate post-war years the United States

restricted its consumption of natural rubber: different types of tyres and other rubber products manufactured in the United States could contain only stated maximum percentages of natural rubber. The purpose of these restrictions was to protect the American synthetic rubber industry. Exporting countries may well protest against such restrictions on the ground that the best use is made of the world's resources only if consumers are allowed to choose freely between different products. It must be added, however, that some of them lay themselves open to the rejoinder that they impose even greater restrictions on their own imports of the manufactures which their customers wish to export to them in exchange.

Another reason for a fall in the demand for exports may be a slump in the importing countries. What primary producers fear most of all is another Great Depression. They regard this danger as something beyond their control. They hope that the big industrial countries, especially the United States, will manage to avoid a severe slump, and that if a recession does come they will nevertheless make every effort to maintain their flow of imports and thus prevent it from spreading to other countries.

Everybody regards a general slump as something beyond his control: an economic blizzard which comes from nowhere. But primary producers are not entirely without influence on the course of events. It is significant that the fall in the prices of primary products was one of the first symptoms of the Great Depression, and that it was associated with accumulated stocks which such producers, or their governments, had built up in the hope of keeping up prices. Primary producers can help to avoid slumps by charging prices which do not lead to large and growing stocks; and the underdeveloped

countries can help by maintaining their volume of imports.

This brings us back to the need for fixing realistic price limits in international agreements. The prices aimed at should be those which will clear the market, over a period, by equating supply and demand. If the price trend of a particular commodity is likely to be downward, owing for example to the spread of higher-yielding varieties or to the falling prices, due to technical progress, of substitutes for it, this should be taken into account when floor and ceiling prices are decided on.

Unfortunately, most primary producers tend to have rather exaggerated views on what are the appropriate prices for their products. They are like the golfers who remember vividly the few occasions on which they achieved a perfect drive and consider them as representing their true form. They recall some period in the past when the prices of their products were exceptionally high and regard prices, or rather purchasing-power over other commodities, approaching those levels as their just and proper due.

The Sugar Agreement is not entirely free from this reproach. Some of the exporting countries insisted on including a provision that in no circumstances should export quotas be reduced below 80 per cent of the export tonnages stated in the Agreement. In 1954 it became clear that the market could not absorb this amount of sugar even at the minimum price; and prices seemed likely to fall through the floor. The situation was saved by Cuba, who voluntarily made a large cut in her export quota; and since then the position has improved owing to unforeseen demands for imports from behind the iron curtain.

Within a country, with the aid of a government which courts their votes and is prepared to spend public revenue on them, primary producers can perhaps realize their dreams. Not, however, without potential harm to other countries producing similar products, and perhaps to their own economies. One views with some apprehension the large stocks of wheat, cotton, and other primary products which have accumulated and are still accumulating, mainly in the United States, as the result of national 'price-support' policies.

But the world of international trade is a competitive world, in which consumers want value for their money. Prices which are too high keep down the volume of sales and lead to accumulating stocks. They also stimulate the output of substitutes and the search for new substitutes and for methods of economizing in the use of the high-priced products.

Hence an international agreement which fixes its price range too high is doomed from the start. Unless there is some unforeseen substantial increase in demand, it will come to one of three bad ends. Stocks will go on piling up, with the countries in the agreement losing trade to their competitors outside it, until the agreement collapses—and prices collapse with it. Or the agreement may deteriorate into a scheme for restriction of output, with all its difficulties and drawbacks.[1] Or the agree-

[1] Restriction of output is wasteful. It may entail the destruction of commodities already produced; for example, 2 million tons of coffee were destroyed in Brazil during 1931–4. This, however, is exceptional. The waste usually takes the form of keeping idle some land (or other resources) which could be used to produce commodities which the world needs, or of deliberately working them inefficiently (for example, by refraining from the normal use of fertilizer), or of using them to produce something else which consumers do not value so highly. Moreover, in practice, schemes for restriction of output tend to safeguard the less efficient producers (by giving them a quota reflecting their share of total output in the past) and to check the expansion of the more efficient producers. *The World Economic*

ment may survive by belatedly lowering its price limits from time to time. This last possibility would involve the very evil which the agreement was designed to prevent, namely price instability, and in an especially undesirable form, instability by jerks. A sinking floor is hardly a satisfactory means of support.

CONCLUSIONS

What conclusions can be drawn from this survey?

One conclusion is that an international agreement which aims at a price range unrealistically high is likely to come to a bad end and to do harm. The producers themselves will suffer, for they will not be able to sell all their output, while the high prices will stimulate the use of existing substitutes and the search for new ones.

Another conclusion is that in any event international agreements are unlikely to be reached for most primary products, as the practical difficulties in the way are too great.

The need to reduce instability must therefore be met in other ways.

A country which relies largely on its export earnings from one or more primary products knows that these earnings are likely to fluctuate considerably from time to time. It can therefore follow a prudent policy of building up its reserves, both external and internal, when times are good and drawing on them during the lean years. It can plan its development programmes on this long-term basis.

A large producer, probably a company, can and

Survey for 1934–5, commenting on the schemes for restricting output then in force, observed (pp. 96–7): 'It is a curious fact that the method most generally adopted to restore a semblance of order in the markets for basic foodstuffs and raw materials has been to reduce output in the most efficient and least expensive areas of production.'

usually does follow the same policy of building up reserves. Small producers, however, such as peasant farmers, may tend to spend nearly all their incomes during good times and perhaps to enter into commitments which they cannot keep when their incomes fall again. If they do in fact behave in this way, their government could take paternal action on their behalf by establishing a Marketing Board to smooth out fluctuations in their incomes over time. The danger is that such a Board may serve as an instrument for making them pay more than their fair share of taxation; this may happen almost unintentionally if the Board mistakes a permanent upward price trend for a merely temporary fluctuation.

In the international field, a good deal might be achieved by consultations at regular intervals between the chief producing and consuming countries of a particular commodity. At such meetings each country would state its plans. Producing countries would say to what extent they proposed to expand or reduce their output, consuming countries would give estimates of their future import requirements, and so on. Such consultations do take place already on a few commodities, but it may be doubted whether they are sufficiently frequent or sufficiently frank. The full disclosure of all relevant information would help the smoother adjustment of supply to demand. This aim would also be greatly assisted if each country was prepared to co-operate with the others by adjusting its national stocks, adding to them or drawing on them, in whatever manner would best promote the general aim of reducing fluctuations in prices and in the volume of trade.

The United States, the United Kingdom, and some other countries guarantee prices well above the world level to their producers of certain primary products.

This policy not only raises the cost of living to their own consumers and places a burden on their public revenues; it also affects adversely other countries which export similar products. It involves closing their home markets, wholly or in part, to imports of such products. It may also confront other exporting countries with subsidized competition in common export markets, for this price-support policy may lead to large accumulations of stocks which are eventually dumped abroad in some form or another.

It is these adverse effects on other countries which have given rise to their plea for 'trade, not aid'. The underdeveloped countries of the world do in fact need external aid, which the United States in particular has been giving them on a large and generous scale. Nevertheless one can sympathize with their view that they need trade still more—trade on a fair competitive basis.

A number of primary products, such as minerals and some tropical crops are not subject to price-support policies. There is always the danger, however, that their sales to a large importing country, such as the United States, might fall off heavily owing to an economic recession in that country. Should an economic recession come about, it is to be hoped that the country in question will not resort to panic measures of increased protection. This is a beggar-my-neighbour policy. The way for it to prevent the recession from spreading to the rest of the world is for it to follow the opposite course and take special measures to keep up its volume of imports instead of reducing them.

Finally, the underdeveloped countries which rely largely on their export earnings from one or more primary products should realize where their own true interests lie. They live by international trade, which

enables them to enjoy higher standards of living by specializing on exports. They should therefore do all in their power to expand, rather than to contract, the total volume of world trade.

OVER-POPULATION

STANDARDS OF LIVING

The very low standards of living of most of the countries in the Far East, and of some other parts of the world, such as Central Africa and the West Indies, reflect very low levels of output per head of population. The reasons why output per head is so low in these countries are considered in the following section. First I shall try to clear the ground by discussing some factors affecting standards of living which are not directly connected with output.

The first of these factors is external aid. It is possible for a country to live, to a considerable extent, upon aid received from elsewhere. Thus in the 1930's most of the imports of Albania were paid for by grants from Italy; the large import surpluses of Israel during recent years reflect a corresponding amount of external aid; and the United States allotted nearly US $100 million, some $9 per head of population, for economic assistance to South Viet Nam during 1955.

It has become customary to add together grants and loans under the heading of external aid. Clearly, however, an outright grant is more helpful than a loan of the same amount, which requires interest and must eventually be repaid, while a loan or direct investment which yields a commercial return (allowing for risks) surely benefits the lender as much as the borrower. But even

if loans are included as well as grants, the amount of external aid provided to most underdeveloped countries does not appreciably raise their present standards of living. There are two reasons for this. In the first place, the populations are so large that the external aid received amounts to very little per head. For example, the population of the Colombo Plan area is some 700 million and the amount of external aid received under the Plan has been well under US $1 a head per year, less than 1 per cent of the national incomes. In the second place, most of the external aid is directed towards investment (including investment in health, training, and research) rather than consumption. It will yield valuable results as time goes on in the form of increased output, but it does little to raise current standards of living.

The second factor is inequality of incomes and wealth in the various countries. A small minority may take a large slice of the national income and live in luxury while the mass of the people are very poor. It may well be argued that such a country should set its own house in order before seeking external aid.

Actual examples of such countries, however, are rare, although there may be two or three, notably in the Middle East. The great majority of underdeveloped countries are so poor that even if their national incomes could be divided equally among their inhabitants (on the impossible assumption that this would not reduce the total to be divided) the standards of living of the mass of the people would not be appreciably raised. Such an equal division is made, arithmetically, by dividing their national incomes by their populations; the result, for countries together containing over half the people of the world, is equivalent to some £30–£50 a year per

head, which is less than a fifth of the corresponding figures for western countries.

These very low figures of national income per head may be questioned. It is true that in the tropics the need for warm clothing, substantial buildings, household fuel, and possibly food is less than in colder climates. Apart from this fact, however, the national-income estimates, although some of them are based on somewhat shaky statistical foundations, give a fairly correct impression. They do include the incomes of cultivators producing mainly for their own needs. They do not reflect, except perhaps in parts of Africa, low costs of living. In the Far East, a number of labour services are cheaper than in western countries, but most manufactured goods are dearer and the staple food, rice, is much dearer than wheat flour. Moreover, other data confirm the national-income estimates. The average consumption of food is well below the minimum required for health and efficiency. Housing conditions are very poor; the average consumption of cloth per head is only 10–15 yards a year; and only a small minority can enjoy amenities such as travel. The conclusion is, therefore, that the main causes of the very low standards of living in such countries lie elsewhere than in the unequal distribution of their incomes and wealth.

The third factor is the terms of trade. The same output yields a larger income if the terms of trade are favourable than if they are unfavourable. Obviously, the significance of this factor varies with the proportion of its output which a country exports. If the terms of trade become twice as favourable (for example, if export prices double while import prices remain unchanged) this adds 30 per cent to the real income of a country which exports 30 per cent of its output, but only 5 per cent to that of a

country which exports only 5 per cent of its output.

Most of the underdeveloped countries, either because their populations are so large or because they have not the climate or resources to specialize on exports, export only a small proportion of their output and hence changes in their terms of trade exert only a minor influence on their standards of living.

A few countries, however, such as Malaya and Ceylon, have relatively small populations and export a considerable proportion of their output. To such countries a large swing in their terms of trade is of major importance. A recent illustration of such a swing was the boom in the prices of raw materials, associated with the Korean War, in 1950–1. The large rise in the prices of tin and other metals, rubber, jute, cotton, and copra, considerably raised the national incomes of countries specializing on the production for export of these commodities.

But changes in the terms of trade are the result of changes in world conditions of supply and demand. A country can do very little to influence its own terms of trade; courses which, theoretically, are open to it (such as combining with other exporting countries to restrict the output of a commodity and thereby raise its price, or taxing imports in order 'to make the foreigner pay') are likely to provoke retaliation by other countries and to do it more harm than good.

On the whole, the exports of underdeveloped countries have fairly free access to the world market (although some of them for one reason or another do not reciprocate by giving free access to imports). They have no alternative but to accept changes in their terms of trade, sometimes favourable and sometimes unfavourable, as inevitable and beyond their control. Such changes are the price which they pay for the higher incomes which

they obtain by specializing on exports. What they can do, however, is to improve the efficiency of their export industries. Whatever the terms of trade may be, a larger output will sell for more, at any given time, than a smaller output, better qualities will always command a premium, and improvements in marketing will always increase the goodwill of consumers.

For the sake of completeness I should add that of course standards of living may be temporarily reduced by increased saving (which, if wisely invested, will tend to raise output and levels of consumption in the future) and conversely.

This preliminary discussion is intended to show that standards of living depend almost entirely on levels of output. Other factors (except, for a few countries, large changes in the terms of trade) are of minor importance and will be ignored in what follows.

OUTPUT

The level of output in a country depends on many factors. The forces of Nature, the system of social organization, the wisdom or otherwise of public economic policy, all play their part.

Floods, droughts, storms, earthquakes, plagues of insects, keep down output; favourable seasons bring good harvests, and conversely. Internal security, the enforcement of contracts, confidence in the currency, absence of corruption in the public services—in short, good government—are necessary to maintain incentives to work and invest. Where the peasant cultivator has no security of tenure, or where the landlord takes a large share (often half) of any increase of his output, he tends to be discouraged from improving the land, using more capital on it, and adopting more productive methods. If the

government takes, through taxation, a large slice of any increase in income, this reduces the incentive to make innovations and to take risks.

Apart from such factors, the level of output depends mainly on the people themselves and on the resources, both natural and man-made, available to assist them in their tasks.

The more healthy, vigorous, and hard-working, the more intelligent, well-informed, and skilled are the people, the more they will produce. There are no grounds for believing that the people of underdeveloped countries are any less intelligent than those of the West. But they are certainly less healthy and less educated. Inadequate diets tend to result in poor physique and in a general lack of stamina and resistance to disease. The amount of medical service available—the numbers of doctors, nurses, hospitals, and clinics relatively to the population—is far less than in the western Welfare State. In many countries less than half the children receive any schooling at all, and the facilities available for secondary and technical education can serve only a small minority. Thus poverty breeds poverty; people are too poor to afford the food and the social services which would enable them to produce more.

A related factor affecting output is that in the tropics, especially in agriculture, a worker often puts in only 20–30 hours work a week. For estates, this can be established by their pay-roll records; for smallholdings it is borne out both by observation and results, which show substantially lower yields both per worker and per acre than those of estates.

No doubt this is due to several reasons, the relative importance of which varies between places and people. Malnutrition and disease, the seasonal nature of agri-

cultural employment in some districts, the lack of sufficient incentives, a tendency to place little value on the material side of life, may all play their part. It is not pleasant to work hard in a hot moist climate; it is not surprising if agricultural workers prefer to work mainly in the early morning and the cool of the evening and to rest during the heat of the day.

Nobody can be blamed for setting a high value on his leisure, rather than on greater earnings, but a worker in an underdeveloped country who exerts himself much less than the average worker in a western country can hardly expect to enjoy the same standard of living.

Nevertheless the smaller amount of work performed in the tropics accounts for only a minor part of the enormous gulf between income per head in underdeveloped countries and income per head in the West. The main explanation is that the western worker has far more resources to assist him. He is living in the machine age. He produces so much more mainly because he has more power, more plant and machinery, more means of transport behind him. Canada alone, with only 16 million people, produces several times as much electric power and has many more motor vehicles than the whole of the Far East, with half the population of the world; if Japan is excluded from the comparison, Canada has also about the same mileage of railways and roads and about as much plant and machinery as the other countries of the Far East (including India and Pakistan) combined.

The workers of most underdeveloped countries are engaged mainly in agriculture. Here, too, the western worker is at a great advantage. On the whole he is better trained, and he employs more capital in such forms as agricultural machinery, fertilizer, and means of trans-

port. But his main advantage is that he has more land. The amount of agricultural land in the Far East, excluding areas of mountain or jungle or desert which cannot be cultivated, averages less than an acre per head of population. There are, of course, differences between areas; for example, Java is far more densely populated (and also more fertile) than the rest of Indonesia, and East Pakistan than West Pakistan. But most countries of the Far East (and the same applies to some other parts of the world, such as the West Indies and southern Europe) are short of land.

As most of the people are engaged in agriculture, their farms are inevitably very small. Most of them are only 2–5 acres, yielding a meagre and inadequate livelihood to the families who cultivate them. In Western Europe, where the population is comparably dense, the amount of agricultural land per head is some 50 per cent greater, and as only a minority are engaged in agriculture, the average farm is over 10 acres. In countries where land is plentiful, farms are much larger still; to take an extreme example, in the Prairie Provinces of Canada they average over 400 acres.

It is surely obvious that the main reason why output per worker in American agriculture is ten to twenty times greater than in China or India is that the American farmer has much more land. One day developments such as photo-synthesis may make land shortage a thing of the past. At present it is very real for most underdeveloped countries; indeed, it is a major cause of their poverty.

OVER-POPULATION AND UNDER-POPULATION

When we consider what measures are most appropriate to raise standards of living in an underdeveloped country,

we naturally take the present population, and probably its present rate of growth, as part of the data; they are ineluctable facts which must be accepted. We then prescribe various measures: measures designed to increase agricultural output, such as bringing more land under cultivation, reducing losses due to pests, bad storage, and plant and animal diseases, raising yields per acre by better seeds, more fertilizer, irrigation, improved methods; increased and improved means of communication; larger supplies of electric power and other public utility services; more industrial plant and machinery; technical training and improved social services. We point out that most of these measures require capital, which is scarce; we conclude that the country in question should somehow try to save and invest a larger proportion of its national income, and that it needs more external aid.

But if we analyse the causes of poverty before seeking remedies we can give some rein to our imagination; we can formulate and consider hypotheses. In particular, we can ask how output per head would be affected if the population were considerably smaller. And the answer would usually be that output per head would be substantially greater. The verdict that there is too little land for the people can be turned round to read that there are too many people for the land; a shortage of land is the same thing as an excess of population.

Imagine, say, China or India with a much smaller population. It is not realistic to suppose that they would have as much capital (man-made assets) as now, but their capital is pitifully small any way. They would still have as much land, minerals, and other resources. Can it be doubted that they would produce much more per head from larger farms than from their present tiny holdings?

It so happens that this conclusion can be confirmed, for the Chinese, by the achievements of Chinese in other countries of South-East Asia. They earn more, and therefore have considerably higher standards of living, than their relatives in China. It is true that most of them (for example, in Thailand, Malaya, and Indonesia) are engaged in the better-paid occupations, such as commerce and industry. But the fact that they can earn more in such occupations than they could earn in China reflects the over-population of China. Moreover, some of them are engaged in agriculture, and their incomes as farmers are considerably higher than they could obtain, with the same skill and industry, in China, because they have more land to farm.

In other ways too a smaller population would help. Japan, for example, has very limited natural resources; like Great Britain, she must rely largely on foreign trade, exporting manufactures in return for imports of food and raw materials. At present she has difficulty in selling enough exports; her volume of output is over 70 per cent above pre-war but her volume of exports is well under half of its pre-war level. Surely it is clear that her problem would be greatly eased if she had only, say, half her present population? She would need fewer imports and she would find it easier to export enough to pay for them.

It does not follow that a smaller population would be an economic advantage for every country. The size which would give the greatest output per head, sometimes called the optimum size, depends on such factors as the area of the country and the amount of agricultural land and other natural resources. Canada, for example, would probably be better off with a larger population. With plenty of land still available, a larger

population would permit more specialization of persons. More young men and women would be available for the professions, the civil service, and administrative posts in industry and trade. Each little district could have its own doctor, lawyer, and so forth. There would also be more specialization of capital; large-scale plants could be set up to produce goods for which the present home market is too small to absorb their output; railways, power plants, and other existing installations could be worked nearer to full capacity, thus reducing costs per unit of output.

The optimum size is that for which the advantages of further specialization would be outweighed by the reduction in land and other resources per head of population. For countries such as China, India, and Japan this point has long been passed. They are heavily over-populated.

I stress this conclusion because it is sometimes urged that their rate of growth of population is no barrier to their economic progress. Why, it is said, need Japan worry about a rate of growth of only $1\frac{2}{3}$ per cent per annum? The rate of growth in western countries was higher than that during their industrial revolutions, and yet they made rapid economic progress.

The western countries, of course, started from a different basis. Their populations were relatively small. Great Britain, for example, has more agricultural land than Japan and is much more richly endowed with minerals, but her population was only 10 million about 1800 and is only 50 million (as against Japan's 90 million) today.

The growth of population in Great Britain helped her industrialization in various ways. It provided a growing home market. It stimulated investment, for the demand

for most products was almost certain to increase as time went on. It facilitated the mobility of labour between industries and occupations; boys leaving school entered the expanding industries, such as engineering, rather than the declining ones, such as agriculture, and in this way her economy was gradually transformed without many workers having to leave one occupation and learn another.

But all this does not apply to countries with populations already far above the optimum level. The growth of population in most countries of the Far East does little to expand the home market. By no means all of the new entrants to the labour market succeed in finding paid employment, and most of the jobs are not very remunerative. The problem in the Far East is to increase the output of food and the size of the home market by raising yields per acre, and at the same time to get the excess population off the land: there are quite enough of them to provide (after training) all the man-power needed for industrial occupations.

The rate of population growth in India, for example, is only $1\frac{1}{4}$ per cent a year. But this means over 4 million more mouths to feed each year. The problem of feeding them (and of finding employment for the new entrants to the labour market) tends to become more difficult, rather than easier, as time goes on and her numbers continue to grow.

CONCLUSIONS

The evidence of over-population in countries such as China, India, and Japan is surely beyond any question. Why is the average per capita output and consumption of food in the Far East still substantially below pre-war levels, despite all the investment which has been made

in that area during recent years? Why do the people of China, who are as industrious as any in the world, earn so much less than their relatives overseas? Why does Japan, long since industrialized and with widespread general and technical education and high levels of industrial skill, have so much lower incomes than the countries of the West? There is only one answer to such questions—over-population.

All the measures which are being taken to promote economic progress in such countries are essential. But the continuous growth of population is a very powerful force working in the opposite direction. The situation of such countries is like that of a man trying to ascend an escalator which is rapidly moving downwards. He must exert a considerable effort merely to stay where he is. A heavily over-populated country has its work cut out merely to maintain its present standards of living, let alone raise them, in the face of its never-ceasing increase in numbers.

What a relief it would be to such a country if its population were to diminish rather than increase! As time went on, more land and other natural resources would be available per head. Fewer children would have to be maintained as dependants and provided with education and other social services and, eventually, employment opportunities.

Emigration is not a practicable solution, not only because most countries which could absorb more people restrict the immigration of other races, but also, and mainly, because the numbers involved are far too large. The only practicable solution is some form of birth control.

This has now been recognized by statesmen in some of the heavily over-populated countries. Several coun-

tries, including India, have established birth-control clinics with government support and are trying to impress on their people the need for limiting births. Japan has gone further and has legalized abortion (in families which already have three children or if a doctor declares the operation necessary). Even China has changed her mind on this question and now favours scientific methods of contraception for the masses.

Death-rates have been falling during recent years; for example, from 1935–9 to 1953 they fell in Japan from 17·4 to 8·9 per 1,000, and in Ceylon from 24·5 to 10·9. The epidemic diseases are being stamped out, and more medical facilities are being established. It seems probable that in countries with death-rates still well above 10 per 1,000 this process will continue. China (for which there are no statistics) is doubtless in this category, and so is India, where the crude death-rate in 1952 was 13·6 per 1,000: although this is much lower than the average for 1935–9, which was 24·3, a considerable further reduction is clearly possible and is likely to take place. Will birth-rates fall still faster?

It seems very doubtful. The task of persuading hundreds of millions of peasants, many of them illiterate and superstitious, to change their present habits is formidable indeed. It needs to be tackled on a far larger scale to produce significant results. Even in Japan, where the number of abortions reported exceeds a million a year and there are said to be many which are not reported, the number of live births is still around 1½ million a year.

Measures of planned investment such as those embodied in the Colombo Plan are, of course, valuable and essential. But the only permanent solution to the problem of poverty in the Far East, as in the West Indies and southern Europe, is a drastic limitation of births.